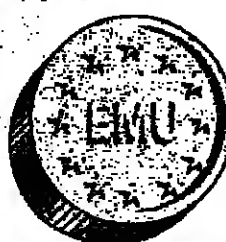


# FINANCIAL TIMES

Sky's the limit

West looks east for jet sales bonanza

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Preparing for Emu

How strong will the euro be?

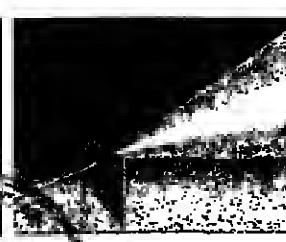
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Sleeping giants

State oil companies challenge the majors

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Lasers

Ray of hope for cancer sufferers

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World Business Newspaper http://www.FT.com

TUESDAY AUGUST 19 1997

## Metro casts doubt over its takeover of Makro group

Germany's biggest retailer Metro has cast doubt on its takeover of Makro, the Dutch cash-and-carry group, after it emerged that its target was considering other offers. Erwin Conrad, chief executive of Swiss parent Metro Holding, said talks between Metro and SHV Holdings, Makro's majority shareholder, would not be concluded before late October. Page 13

**Israel releases Palestinian prisoners**  
Israel has started to release prisoners worth \$142m (\$12m) owed to the Palestinian Authority, suspended in retaliation for last month's suicide bomb attack in Jerusalem. Page 12

**Morgan Stanley in train deal**  
US investment bank Morgan Stanley has been retained to prepare UK rail leasing company Angel Trains for a £1bn (\$1.6bn) sale. The UK government sold the business two years ago for \$672.5m to a management team backed by Japanese securities house Nomura. Page 13

**North Korea nuclear project starts**  
The international consortium preparing to supply North Korea with safe nuclear power reaches what it describes as "a major milestone" when it formally breaks ground at its site in Kumho on the country's east coast. Page 5

**Thai growth predictions slashed**  
Economic forecasters have slashed their growth expectations in Thailand to just 1.9 per cent this year, and sharply raised their inflation predictions to 6.6 per cent. Page 5

**Japan land values fall again**  
Japanese land prices have fallen for the fifth year in a row, leaving the cost of sites in Tokyo at a fifth of their value during the "bubble era". Page 5

**KLM deal**  
Dutch airline KLM has agreed a tie-up with Braathens Safe, a Norwegian carrier which has been challenging Nordic market leaders Scandinavian Airlines System. Page 13

**Caricom and US face trade row**  
A fresh trade row is looming over attempts by the US Congress to force other countries to reject closer ties with Cuba. The 12 members of the Caribbean Community (Caricom) have rejected moves to penalise them for trying to foster trade links with Havana. Page 12

**World markets**  
European stock markets mostly clawed back early losses, and the FTSE-100 delivered a reasonably robust performance, closing a net 20.8 off at 4,886.0. US stocks weakened further, following Friday's 247-point collapse in the Dow Jones Industrial Average, as technology stocks came under renewed pressure. Lex, Page 12; World Stocks, Page 30

**New Mir crisis**  
The main computer on crippled Russian space station Mir has failed, forcing the three crew members to shut everything except life support systems. Page 4

**Hewlett-Packard disappoints**  
Computer and electronics group Hewlett-Packard disappointed Wall Street with much lower than expected third quarter earnings, despite strong growth in orders and revenue. Page 13

**Vintage year for Bordeaux**  
Bordeaux's wine harvest has begun more than a century earlier than usual, a once-in-a-century event that could yield 1997 vintage white wines of exceptionally good quality, growers said. "1997 is already a legendary vintage - there is no doubt that this wine will be exceptional," said one.

**Russia's new transport aircraft crashes**



Russia's new BE-103 transport aircraft has crashed near Moscow the day before its public debut at an air show, killing the pilot. Its designers at Sukhoi military aviation had great hopes for the BE-103, an amphibious design which they say has good export prospects.

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STOCK MARKET INDICES			
New York: Dow Jones Ind. Av.	7,853.88	(+1.59)	
NASDAQ Composite	1,522.74	(-2.28)	
Europe and Far East			
CAC40	2,610.13	(-51.71)	
DAX	4,078.80	(-74.28)	
FTSE 100	4,886.00	(-20.8)	
Nikkei	10,041.70	(-29.93)	
US LUNCHTIME RATES			
Federal Funds	5 1/4		
3-month Treasury Bill	5.28%		
Long Bond	98 1/2		
Yield	6.52%		
OTHER RATES			
UK 3-month Interbank	7 1/4	(7.25)	
UK 10 yr Govt	10 1/2	(10.125)	
France: 10 yr Govt	5.62	(5.38)	
Germany: 10 yr Bond	4.62	(4.34)	
Japan: 10 yr JGB	4.88	(4.73)	
NORTH SEA OIL (August)			
Brent Blend	\$18.46	(18.25)	
STERLING			
DM	2.9365	(2.9275)	

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GEC-Alsthom and Siemens seal contracts for China's Three Gorges project

## European groups win dam deals

By James Harding in Shanghai and Graham Bowley in Frankfurt

Consortiums led by GEC-Alsthom, the Anglo-French group, and Siemens of Germany have beaten off rivals to win the first contracts to supply power equipment for China's Three Gorges dam, the world's largest hydroelectric project.

The GEC-Alsthom group will provide eight power units, having won the bulk of the estimated \$800m order of 14 generators and turbines for the first stage of the controversial \$30bn project that will span the Yangtze river.

The Siemens consortium, which includes Voith of Germany and GE Canada, has been asked to supply the other six power units. The order for the six generators - which will each have a capacity of 700MW - and the turbines to be provided by the Siemens consortium is worth about DM800m (\$326m), Siemens said.

A GEC-Alsthom representative said: "It is very good news. We are taking the lead in a world famous project. They... are drinking French champagne in Beijing." But company officials refused to disclose the value of the contract for the eight units.

The competition for the first Three Gorges deals has been fiercely contested, as six consortiums had lower and lower prices and offered generous financing to win contracts that many see as an entry ticket to vast future Chinese business.

The bid, which were decided behind closed doors last week, were for the first stage of equipment supplies: 14 out of a total 26 700MW power units, with turbines and generators.

## BT terms for MCI expected to stay unchanged

By Clay Harris in London and Tracy Corrigan in New York

The merger of British Telecommunications and MCI Communications, thrown into serious doubt last month, is expected to proceed with no change in the financial terms, according to some securities lawyers in New York.

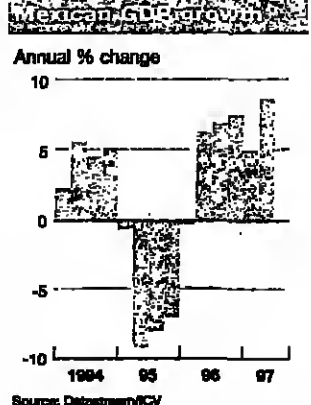


BT's shares-and-cash offer, which yesterday valued MCI at \$28.67m (£17.76m), is thought unlikely to be altered, based on the wording of a Securities and Exchange Commission filing late last week.

## Recovery fuels leap of 8.8% in Mexico's GDP

By Daniel Dornbey in Mexico City

Mexico's gross domestic product leapt by 8.8 per cent in the second quarter over the same period last year, greatly surpassing expectations and continuing the strong recovery from the 1994 peso devaluation.



Seasonally adjusted numbers yield an underlying growth rate of 7.4 per cent, fuelled by a long-awaited domestic recovery.

The figures are a fillip for President Ernesto Zedillo, facing the first opposition-dominated Congress in the country's history and increasing controversy over the government's economic policies.

The rise failed to impress the Mexican stock exchange, which remained worried by Wall Street. Midway through trading the leading index stood at 4,881.13 per cent down on the previous close.

"Finally we can talk about a broad-based recovery," said Paulo Leme, director of emerging markets economic research at Goldman Sachs, New York.

Continued on Page 12  
A way through the fog, Page 10

## Bonn forecasts higher rates of unemployment

By Ralph Atkins in Bonn

Germany's economics ministry yesterday revised upwards its forecast for unemployment this year and said that, even with faster economic growth, there would be only a "slight decrease" in record joblessness next year.

rency membership - as demanded by some conservatives in the parties of the governing coalition.

Highlighting the difficulty Germany still faces in tackling unemployment levels not seen since the 1930s, Günter Rexrodt, economics minister, said it was probable that only western Germany would benefit from next year's expected fall. The east continued to be hit by overcapacity and wages which have grown faster than productivity.

German unemployment is predicted to average more than 4.5m in 1997, an increase of 350,000 compared with 1996. That compares with official forecasts published in May predicting an average of 4.285m.

By pushing up government spending and lowering tax revenues, high unemployment is making it more difficult for Germany to achieve the Maastricht treaty criteria for membership of a European single currency.

But Mr Rexrodt painted an upbeat picture of Germany's growth prospects. He acknowledged different trends in different parts of the economy, but said exports were growing "exceptionally powerfully".

Mr Rexrodt said the criteria could still be met, but he avoided forecasting whether the German deficit would fall to exactly 3 per cent of gross domestic product - the Maastricht target for single cur-

In the domestic economy, however, retail sales remained restrained, orders for investment goods were sluggish and production in the building sector was falling.

This announcement appears as a matter of record only.

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acted as Rule 3 independent financial adviser to

**Cater Allen Holdings PLC**

during the £191 million recommended offer for Cater Allen Holdings PLC by Abbey National plc.

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Claims by Bosnian Serb president highlight growing intensity of power struggle with Karadzic

# Plavsic accuses rivals of bugging her

By Guy Dinmore in Banja Luka, Bosnia

Biljana Plavsic, the Western-backed Bosnian Serb president who is locked in a power struggle with hardline nationalists, accused her rivals yesterday of maintaining an extensive bugging network in the main police station close to her offices.

Mrs Plavsic called a press conference to display what she said were transcripts of conversations she and other prominent figures had held since June when the power struggle erupted.

"The president was codenamed 'thunder' in the transcripts, while

opposition leaders based in her stronghold here in north-west Bosnia were nicknamed 'crow' and 'lizard'. Mrs Plavsic said 200 tapes were seized.

One telephone line said to have been tapped was that of Jovo Rosic, a constitutional court judge, who said he had been badly beaten by Mrs Plavsic's rivals the day before the court ruled last week that the president had had no authority when she dissolved parliament last month.

Special police forces under Major Dragan Lukic, loyal to Mrs Plavsic, seized the public security headquarters from forces controlled by Radovan Karadzic, Bosnia's war-

time leader and indicted war crimes suspect, before dawn on Sunday. British troops of the Nato-led peacekeeping force, backed by armoured vehicles, took control of the building in Banja Luka 12 hours later and evicted Major Lukic and his 50-strong force.

UN civilian police scoured the building for evidence of phone-tapping and human rights abuses while British soldiers stood guard yesterday. UN police said they had found some arms and possible evidence of phone-tapping.

Serb politicians said the incident illustrated the growing rift between Mrs Plavsic and Mr Karadzic, who is based to the east

in the mountain village of Pale near Sarajevo.

Dr Miodrag Zivanovic, leader of the opposition Social Liberal party, said there was a real danger that the Serb-controlled half of Bosnia would itself break into two distinct camps.

Nato accused Major Lukic of breaking rules governing the conduct of special police forces but a spokesman said there was no evidence that Mrs Plavsic had prior knowledge of his operation.

Western powers have given strong backing to Mrs Plavsic. Despite her record as a nationalist ideologue, she is perceived as more willing to accept the US-mediated Dayton peace accord that ended Bosnia's civil war between Muslims, Croats and Serbs.

Nato's recent imposition of controls over Bosnia's special police forces were primarily intended to weaken Mr Karadzic's position.

Croatian authorities are holding Pero Skopljak, an indicted Bosnian Croat war crimes suspect, in a Zagreb jail, and are likely to transfer him to The Hague today, court sources said yesterday. Reuter reports from Zagreb. The suspect will probably be flown out of Zagreb and taken to the international war crimes tribunal for former Yugoslavia in the Dutch city at midday local time today.

## Russian property chief shot dead

By Christia Freeland in Moscow

The deputy governor of St Petersburg was shot dead by a sniper yesterday in a gangland-style killing which has renewed fears in Russia of connections between organised crime, business and politics.

Mikhail Manevich, who also headed the city's state property committee, the agency responsible for privatisation, was killed while travelling to work in his official car down Nevsky Prospekt, St Petersburg's romantic main street and a central location in the work of great Russian writers such as Tolstoy and Gogol.

Officials said that Mr Manevich appeared to be the victim of a sniper shooting from a rooftop on the street. His wife was also wounded in the attack.

Anatoly Chubais, the first deputy prime minister and a leading Russian reformer, said the attack on his old comrade was part of a broader effort by "bandits" to thwart the government's efforts to impose law and order in Russia.

"Regardless of the banditry and anarchy, the position of the reform team will be unchanged," Mr Chubais said.

"In answer to their actions we will act ever more firmly."

Mr Chubais praised Mr Manevich as a dedicated official and personal friend and said that the two men had been planning to meet yesterday evening.

"For me, Misha Manevich was not just a bureaucrat. We were united by a shared mission and by a web of friendship reaching back to our university days," Mr Chubais said.

Mr Manevich's death will increase the controversy surrounding the municipal government of St Petersburg. Russia's elegant second city, which has recently become mired in corruption scandals, leading to the arrests of several officials.

The 36-year-old deputy governor's death is also likely to increase public scepticism about the Kremlin's vow to introduce "civilised behaviour" and the rule of law into Russia's wild new capitalism.

Because of the weakness and frequently biased behaviour of the Russian courts, businessmen are often inclined to resolve their disputes through force. Civil servants, particularly those responsible for such potentially lucrative areas as privatisation, often risk being dragged into these struggles.

## Pension crisis spurs reforms in E Europe

In the first of three articles, Bertrand Benoit and Matej Vipotnik examine the problems of updating east Europe's pensions

Europe's ageing populations are stretching state pension systems to the limit - and nowhere are the strains worse than in the formerly Communist-run welfare states of the east.

High contribution levels, generally low benefits resulting from wider coverage and a population of baby-boomers close to retirement age are forcing governments to look urgently at reform to avert the looming crisis.

Three avenues have been explored so far.

The minimalist solution seeks to improve the existing system by raising the retirement age, increasing contributions or lowering benefits. The Czech government recently shifted the indexation of benefits from rapidly increasing wages to inflation. In Hungary the contribution base was extended last November, while Romania increased the

number of years used to calculate benefits.

In both the Czech Republic and Bulgaria, independent pension authorities were created to avoid the all too frequent governmental raids on pension coffers. This has not prevented the Czech government from dipping into the reserves. "It is a relatively insignificant change," said Vladimir Kreidl, an economist at Patria Finance in Prague.

The second option entails the creation of private pension funds to complement the existing system. Again, this approach has limits. In Romania, the two funds in operation are crippled by lack of investment opportunity and inadequate financial market infrastructure.

In the Czech Republic, 39 funds survive out of 44 set up in 1995. "The situation is far from optimal," said Mr Kreidl, referring to limited

### Pension reform in eastern Europe

	Hungary	Poland	Czech Republic	Estonia	Latvia	Slovenia	Romania	Bulgaria
Limited state-pension system reform	✓	✓	✓	✓	✓	✓	✓	✓
Establishment of private pension funds	✓	✓	✓	✓	✓	✓	✓	✓
Shift to multi-pillar pension system	✓	✓	✓	✓	✓	✓	✓	✓
Public pension expenditure (% of GDP)	10.3	14.6	8.1	6.7	9.8	13.7	6.6	9.0
Year of latest pension expenditure figures	1994	1995	1995	1995	1995	1994	1993	1993
Source: World Bank								
	✓ Changes underway or completed	✓ Changes underway or completed	✓ Changes underway or completed	✓ Changes underway or completed	✓ Changes underway or completed	✓ Changes underway or completed	✓ Changes underway or completed	✓ Changes underway or completed
	✓ Changes planned	✓ Changes planned	✓ Changes planned	✓ Changes planned	✓ Changes planned	✓ Changes planned	✓ Changes planned	✓ Changes planned
	✗ No change	✗ No change	✗ No change	✗ No change	✗ No change	✗ No change	✗ No change	✗ No change

market transparency which persists despite recent efforts at creating a stronger regulatory environment.

Funds operating in thin and volatile markets are constrained by strict guidelines which affect the return on investment. "Pension funds can only develop as fast as the financial infrastructure," said an official at the European Bank for Reconstruction and Development.

There may be other reasons for dormant fund activity. In Hungary, payroll contributions to state funds of 30.8 per cent of gross wages have tapped most of the available savings at the expense of the 250 pension funds created in 1994. One condition for the success of private funds is the overhaul of state pension systems,

International Monetary Fund officials argue.

The third approach involves the introduction of a three-pillar arrangement along guidelines issued by the World Bank in 1994. The state-run system is scaled down, dealing solely with redistribution, and is flanked by a mandatory, fully funded private system. Both pillars are financed from payroll tax and supplemented by a third, voluntary pillar of private funds for those wishing to receive larger pensions.

Poland is moving towards such a model. Under a new system to be phased in from January 1999, the government will create 10 to 12 private funds, which will be capitalised by the transfer of state assets. "Although the funds are likely to be in-

tially cautious in their investment strategy, they will probably develop relatively fast," said Jack Dzierwa, Poland analyst at Salomon Brothers London.

The multi-pillar model also inspired the new Hungarian system due to start in January. A quarter of contributions will be transferred to mandatory, privately run funds. Younger workers will be able to opt out of the old system, which will be scaled down over four decades. The government plans to finance the project with privatisation receipts and bond issues.

Similar reforms are being considered in the Czech Republic, Estonia, Latvia, and Russia. Romania and Bulgaria have implemented only limited measures.

## Aircraft groups swoop on new market

By Joe Cook in Prague

The efforts of western aircraft groups to sell fighter jets to central European countries are about to enter a new, intensely competitive phase. Among the prizes at stake is a Czech government order for 34-30 jets worth up to \$1bn, the outcome of which will set a precedent in central Europe's newly opened defence market.

The Czech Republic, Hungary and Poland are in the market for modern fighter jets and air defence systems as they prepare to enter Nato in 1999. Austria and Slovenia are also moving to upgrade their air forces. Central Europe's combined orders for as many as 262 jets will be worth up to \$10bn.

Battling for that business are British Aerospace and Saab, the Swedish aircraft group, which jointly make the Gripen jet, Lockheed Martin of the US, maker of the F-16, Boeing, which manufactures the F/A-18, and France's Dassault, maker of the Mirage.

All four competitors are touting their jets as the best. But according to Paul Beaver, of Jane's Defence Weekly: "There is no such thing as the best aeroplane in the world. What matters is best value for money." Best value breaks down into three components: purchase price, operational costs and indus-

trial offset programmes. It is on the latter, which help countries balance the cost of military procurement with inward industrial investments, that the outcome of the competition will largely turn.

Defence industry analysts say Hungary has played the smartest hand so far, encouraging competitors to institute offset programmes before the release of tender documents. To that end, Budapest signed a non-binding memorandum of understanding in 1995 with the Swedish government, under which Sweden has pledged to make investments in Hungary, and to buy Hungarian goods worth a potential \$1bn, equal to the cost of buying 30 Gripen.

Under the scheme, Electrolux, the Swedish appliance maker, which like Saab is owned by the Wallenberg family's investment holding company, has invested \$100m in a fridge factory. The plant employs some 4,000 people and now accounts for 8 per cent of Hungarian exports. Electrolux has promised the Hungarian government it will create another 18,000 jobs if it buys the Gripen.

In Poland, plans are afoot to form an "offset committee" under which local industrialists will co-ordinate negotiations between the four western jet-makers and as many as 1,500 Polish companies. All four competitors have agreed to assemble their

jets at PZL Mielec, a state-owned aircraft concern.

Assembly typically accounts for about 15 per cent of the cost of the jet. Poland is expected to order 100-180 jets, worth up to \$1bn. PZL can therefore expect revenues of up to \$600m from jet assembly. Boeing and Dassault have already signed component-making deals with the Polish company.

In the Czech Republic, Lockheed Martin and CKD, a Czech heavy engineering firm, have signed a preliminary "job-producing" industrial development programme. Boeing strengthened its hand in May by signing a memorandum of understanding with Prague to acquire a stake of between 34 per cent and 40 per cent in the state-owned Aero Vodochody for a minimum price of Kč550m (\$28m).

The arrangement includes proposals for Aero, which makes light jets, to produce parts for Boeing civil aircraft and to co-produce the F/A-18. The final contract is scheduled to be signed by late September. "We think Aero is a win-win situation for us," said Mr Schluter.

Alan Garwood, European managing director of British Aerospace, disagreed. On a recent visit to Prague, he challenged the Boeing-Aero arrangement by offering to license full production of the Gripen

to Aero. This would include transferring high technology and intellectual property rights to the Czechs, and could also include establishing a design and development unit at Aero.

Bae and Saab are free of the constraints faced by US defence companies, which need government approval for high-tech transfers on the grounds of security and domestic job safeguards.

Politics is also a factor. The US may expect some reward for spearheading Nato's invitation to the Czechs, Hungarians and Poles. "Poland is a strong ally of the USA, which is why Poland will work to balance anti-American sentiment," said a senior official at the Polish foreign ministry.

The Anglo-Swedish team can also expect a tough sell because of Sweden's traditional neutrality.

In order to counter that, Bae, which is in charge of marketing the Gripen across central Europe, is pitching the jet as a chance for local companies to "become part of a new pan-European defence industry".

Still, with Nato enlargement requiring a two-thirds majority vote in the US senate, central European governments can expect some heavy-weight American lobbying.

"The US will extract at least a pound and a half of flesh," said Mr Beaver.

These are the tightest budgets we will ever see in Europe. Further, says Mr Persaud, many European countries and companies are cutting social security spending. That should boost growth.

Lastly, many central banks will want to hold large euro reserves, says Mr Persaud. He rejects the view that central banks seek to hold strong currencies as reserves. Were that the case, he says, bank vaults would be full of Swiss francs, Dutch guilders and Japanese yen. In fact, the dollar is the most popular reserve currency. Central banks like the dollar because it has tended to fall. They know it is unlikely to soar, forcing them into devaluations.

Much international trade is paid for in dollars. The euro should assume a similar dominant role in world trade, says Mr Persaud. So there are reasons to think the euro will be firm. For the euro, Mr Jukes says, the only way is up.

## Euro's only way 'will be upwards'

The new currency could confound the sceptics and prove as hard as the D-Mark, reports Simon Kuper

"The euro will be weak" has been the mantra of the currency sceptics this summer.

Most traders think the single European currency will be nowhere near as firm as the D-Mark, which has risen for most of the past 25 years. As the D-Mark is traded as a proxy for the euro, they have been selling the German currency. It dropped 5 per cent against the dollar in July, hitting eight-year lows, and has revived only in the past fortnight.

But the markets may be wrong: the euro could be as hard as the D-Mark.

The "weak euro" argument rests on three pillars. First, the market expects European monetary union to be "broad", with up to 11 founding members in January 1999, including such historically weak currencies as

the lira, peseta and escudo. The entry criteria for Emu would probably be blurred, letting entrants run high budget deficits, thus softening the euro.

The second argument is that Europe has structural economic problems. Economists say it pays out too much social security, creating high unemployment and low growth. The third point: the euro will have no pedigree. Central banks want to hold the dollar and D-Mark because these currencies have proved strong. As the euro will have no history, central bankers will convert their D-Mark reserves into dollars rather than euros.

But the euro could have some classic economic fundamentals making for a strong currency. The countries expected to join Emu have a total current account surplus of about \$100bn. Europe has become "banker

to the world", says Peter von Maydell, senior currency economist at UBS in London. Any economy that exports more than it imports should find demand for its currency exceeds supply.

Then there is the independent European central bank. Currency strategists expect it to kick off by taking a tough line on inflation. "Whoever is running the bank will be an inflation hawk from Day One," says Kit Juckes, currency strategist at NatWest Markets in London. That means rising interest rates. The high yields should draw investors to fixed-income assets in euros, boosting the currency.

The European central bank will be relatively free to raise rates, says Avinash Persaud, head of global currency research at J.P. Morgan in Europe, because the Emu economies should be recovering by January 1999.

France may want the bank to go easy on rate rises, but the bank's statutes should enable it to resist politicians, currency strategists say.

Mr Persaud adds: "You are talking about a culture of central banking today which is very conservative in Europe, from Germany to Italy." Antonio Fazio, governor of the Bank of Italy, "is arguing about pockets of inflation in a country with an inflation rate of 1.5 per cent. He's a tough man".

Already, the inflation rate in the putative Emu zone averages only about 2 per cent. That bodes well for the euro.

With monetary policy tight, Emu members will have to stimulate their economies by cutting taxes. That should enhance economic growth, another plus for a currency. Taxes are high all over Europe this year, to reduce government deficits. But Mr Von Maydell says:

"These are the tightest budgets we will ever see in Europe. Further, says Mr Persaud, many European countries and companies are cutting social security spending. That should boost growth.

Lastly, many central banks will want to hold large euro reserves, says Mr Persaud. He rejects the view that central banks seek to hold strong currencies as reserves. Were that the case, he says, bank vaults would be full of Swiss francs, Dutch guilders and Japanese yen. In fact, the dollar is the most popular reserve currency. Central banks like the dollar because it has tended to fall. They know it is unlikely to soar, forcing them into devaluations.

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### EUROPEAN NEWS DIGEST

## Austrian right wants Emu poll

Jörg Haider, the charismatic leader of Austria's far-right Freedom party, yesterday announced a nationwide petition to force the government into a referendum on the single European currency. Mr Haider said that Austria was unprepared for economic and monetary union (Emu) and might end up with a soft and unstable currency.

He cited Britain's example, where the government has promised to consult the population before joining Emu. His initiative will have no legal force, regardless of the number of signatures, but it could put the government on the defensive at a time when few Austrians are convinced of the benefits of the euro.

The latest opinion polls show the population evenly split, but a majority expects that Emu will be disadvantageous to them. With a budget deficit below the Maastricht treaty's limit of 3 per cent of gross domestic product, and the schilling closely pegged to the D-Mark, Austria is expected to join Emu in the first round.

Representatives of the ruling coalition dismissed Mr Haider's call for a referendum and pointed out that by voting in favour of EU membership in 1994, Austria had already endorsed the single currency. *Eric Frey, Vienna*

### 'MAD COW' BAN

## Germans seize suspect beef

Sixty tons of beef seized by customs officials in Germany last week originated in Britain, in violation of a European Union export ban imposed because of "mad cow" disease, a customs spokesman said yesterday.

Günther Losse said a British stamp had been found on the meat, which was seized at a food import company in Kalltenkirchen, northern Germany. The meat, shipped from Ireland in three containers in April, May and June, was seized after a tip-off from customs officials in Brussels who doubted the validity of an Irish stamp and said a UK stamp had been removed from the meat.

The importer was arrested but freed after questioning. Investigators said he might not have known the meat was imported from Britain. If found guilty, he faces a sentence of up to five years in prison. *AFP, Hamburg*

### ITALIAN CATHOLICS

## Politicians rally to Pope

Umberto Bossi, who accused the Pope last weekend of meddling in politics, came under fire yesterday from government and opposition parties. Mr Bossi, leader of the separatist Northern League, said that the Vatican had taken a step backwards under Pope John Paul, focusing more on secular than on spiritual matters.

"Bossi's words are the fruit of a personal neurosis: he needs a psychiatrist," said Rocco Buttiglione, head of the opposition centre-right Union of Christian Democrats.

"The Church in Italy does not do politics. Bossi does politics in the most squalid of ways," Mr Buttiglione said in an interview published by La Repubblica yesterday.

Beppe Pisani, speaking for the opposition Forza Italia movement, called the remarks "ravings and vulgarities which do not deserve any consideration".

Mr Bossi clashed with the church last year when he proclaimed independence for the northern "Republic of Padania". *Reuters, Rome*

### CYPRUS TALKS

## EU defies Turkish protest

The European Union said yesterday it would open membership talks with the Greek Cypriot government of Cyprus despite complaints from the Turkish side that such a move threatened the island's reunification.

João Vale de Almeida, an EU spokesman, said that the EU "continues to urge both parties to seek a negotiated solution to their problems".

He made it clear, however, that the EU would not be held hostage by a Greek-Turkish stalemate over Cyprus. In the absence of a reunification accord, the EU would start talks with the Greek Cypriots in 1998 as scheduled, he said.

Reunification talks in Switzerland collapsed last Friday after the Turkish Cypriots refused to drop their objections to Cyprus's entry into the EU unless the Turkish side was included in negotiations.

Rauf Denktaş, the Turkish Cypriot leader, accused the EU of undermining the reunification process by its readiness to negotiate membership with the Greek Cypriots alone. *AP, Brussels*

### FRANCE AND EU

## Lang threat to block treaty

An influential Socialist member of the French parliament has vowed to oppose ratification of the European Union's Amsterdam Treaty, saying it would open the way to the decline of the EU.

In an article published yesterday in Le Monde, Jack Lang, chairman of the National Assembly's foreign affairs committee, called the accord "a rump treaty" papering over cracks. He demanded that the EU be turned into a federation to regain its momentum.

"I will not ratify the Amsterdam Treaty as it is now being presented. And deputies in several national parliaments are prepared to do the same," he wrote.

"The path chosen in Amsterdam is not the right one, neither in its vision nor its method. By patching up and adding a coat of glossy paint, we have merely plugged the leaks of a ship without a skipper, a course or an engine."

Last June's Amsterdam summit produced a watered down accord paving the way for EU expansion into eastern Europe and enabling the union to push ahead with plans for a single currency from 1999.

Mr Lang said the treaty showed Europe's apathy in the face of "a vigorous, creative and conquering" United States. *Reuters, Paris*

### FRENCH IMMIGRATION POLICY

## 54,000 apply to stay on

More than 54,000 immigrants unsure of their legal right to live in France have asked the new leftwing government to let them stay on, far more than expected, the interior ministry said yesterday.

The government, which took power in June, announced as one of its first steps that it would begin a case-by-case review of an expected 40,000 requests for residence papers from immigrants finding themselves in legal limbo.

The large number seeking to clarify their status is certain to fuel rightwing arguments that Lionel Jospin, the Socialist prime minister, erred in agreeing to review their situation.

Jacques Chirac, the Gaullist president, has charged that the initiative will encourage more illegal immigrants to come to France, aggravating the country's 12.6 per cent unemployment and thus feeding racist sentiment.

Most of the cases are the result of revisions in immigration law carried out under the previous rightwing government. They deprived thousands of individuals of the legal right to remain in France while failing to give the state the power to expel them. *Reuters, Paris*

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## Ameritech chief in plea to FCC over ruling today Telecoms guidelines call

By Nick Tait in Chicago

Dick Notebaert, chief executive of the Ameritech telecoms group, yesterday called on the Federal Communications Commission to provide "clear and realistic" guidelines for local carriers seeking to enter the long distance market.

The FCC is due to rule today on whether the Chicago-based carrier, which provides local services in five Midwest states, has opened its local markets sufficiently to warrant its entry into Michigan's long distance market.

The 1996 telecoms act permitted local carriers in the US to start selling long distance services, but only if their existing monopoly markets were opened to competition.

Ameritech's Michigan filing is the most advanced bid by a local carrier for long distance permission in the regulatory pipeline, and the keenly awaited FCC ruling is likely to be a benchmark for the industry.

In an article in today's Financial Times, Mr Notebaert said Ameritech had "done everything to hold up our end of the bargain", and that its Midwest markets were "the most open anywhere in the world".

Expressing frustration with the regulatory process, Mr Notebaert added: "Whether or not the FCC opens long distance markets to Ameritech in its decision today, they can advance the process by rejecting vague tests and impossible burdens."

But Bert Roberts, chairman of MCI, the Washington-based long distance carrier, countered by accusing the local carriers, such as Ameritech, of "systematically opposing" local competition.

"The local companies are merging rather than competing, seeking to thwart competition instead of advancing it, shamelessly exploiting their monopolistic power to do so," he said.

Mr Roberts noted that Ameritech still controlled 99 per cent of its local calling area. "To be sure, the local monopolies have learned the rhetoric of competition. But they resist the reality. And their rhetoric is belied by the facts," he said.

That continuing concentration, said Mr Notebaert, reflected a deliberate strategy by the long distance carriers, which, he said, were stalling entry to the local markets. "Long distance companies have been encouraged to believe that the longer they stall full-scale entry into local markets, the longer they can preserve the status quo and guarantee their own profitability," he said.

Analysts, meanwhile, are doubtful that the FCC will grant Ameritech's request, following reservations expressed by Michigan regulators and the Department of Justice over Ameritech's compliance with a 14-point checklist, designed to test whether markets are open.

In June, the Michigan authorities found a shortfall in three specific areas, although they conceded that these deficiencies might be remedied by the time the FCC ruled. The Justice Department expressed similar concerns to the FCC.

The long distance markets in Ameritech's core five-state area are worth around \$2bn annually, with revenues in Michigan put at around \$2.3bn. Ameritech has also filed for permission to enter the long distance market in Illinois.

Waiting game, Page 10

## Montserrat's economy in ashes as eruptions worsen

Canute James reports on an island with fears for its future

Montserrat's truculent volcano is now threatening what the British government says is a "massive, cataclysmic-intense eruption", putting further in doubt the viability of the colony in the eastern Caribbean, and causing the authorities to plan a voluntary partial evacuation.

George Foulkes, the UK's international development minister, said yesterday the consequences of the eruption "if it did occur, would be extreme" and the entire island was threatened. "Over the past 24 hours the volcano has become more dangerous. As a result, we have agreed to this voluntary partial evacuation of anyone who wants to leave."

The Soufriere Hills volcano, which became active two years ago, has destroyed Montserrat's economy. With the habitable areas of the island reduced to 15 of its 40 square miles, the 4,000 islanders - about a third of its population of two years ago - have been moved to the undeveloped north.

They are faced with inadequate housing and poor sanitation. Doctors and nurses are leaving, and the civil servants remaining went on strike last week because their wages have not been increased since 1990.

The dangers posed by the volcano, and closure of the island's only airport in June, have stopped tourism, after visitor arrivals last year were half the 1995 volume. Processing imported rice for the European market, a big source of revenue, has fallen significantly.

Restricted port activities have reduced the assembly and re-export of electronic products. The economy now depends mainly on aid from London. Insurers no longer provide cover for property.

"This is a voluntary evacuation and we are not abandoning the island," Bob Webb, head of the governor's office, said yesterday. "There is a lot of speculation about the minimum number of people which would make a viable community. No number has been put on it. The UK will continue to support those who stay."

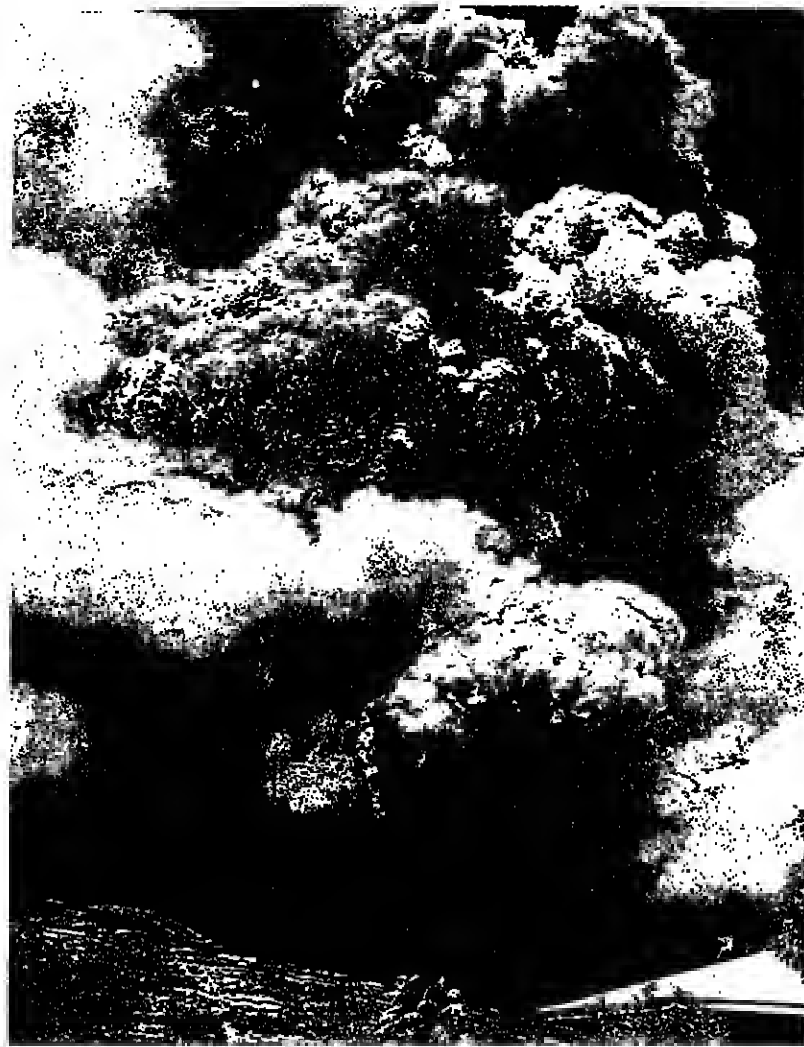
However, a senior Montserrat civil servant said the issue of the island's viability would have to be addressed soon. "This situation cannot be sustained if the volcanic activity continues for another few months, and this is clear to all involved," he added.

A senior official of the Caribbean Community secretariat said the British and Montserrat governments must have reached private conclusions already about viability.

"There was talk of building a new airport, but there must be a market to support infrastructure. Can electricity, telephones and water, for example, continue to be produced at higher costs for a smaller population? Can the taxes collected from 4,000 or 3,000 people do what the original 11,000 were paying two years ago?"

The deterioration in the situation has taken the island's administrators by surprise. Bertrand Osbourne, the chief minister, who suggested last week that the island could be viable, said yesterday the government would determine "who goes first and when".

"It is a day we have been battling for over two years to avoid," said Frank Savage, Montserrat's governor. The details of the evacuation will be told to Montserratians later this week, said Mr



Soufriere erupts: islanders have fled to the undeveloped north

## Big labour bounces back

Polls show public sympathy for Teamsters union anxiety over growth of part-time jobs at UPS, writes Mark Suzman

Tens of thousands of strikers are on picket lines across the US for a third week, confronting angry managers with chants and slogans. It is as if the labour dispute United Parcel Service, the US's largest parcel carrier, and the Teamsters, one of the country's most powerful unions, has turned the clock back to a classic mid-century battle between "big business" and "big labour".

While that may be an obvious characterisation, in the ultra-competitive world of the 1990s it is a misleading one. Business has been thriving in recent years and despite the return of a Democrat to the White House, unions have continued their decades-long slide in power and membership.

But in the otherwise quiet days of summer, organised labour senses that the UPS strike may mark a turning point in its fortunes. The broader labour movement has seized the opportunity to grab the public's attention and demonstrate an aggressive new approach in its drive to reassert workers' rights in an increasingly service-driven economy.

Between 1992 and last year, private-sector union membership fell by 320,000, to 9.4m, just over 10 per cent of non-government workers. That was barely half the peak of 17m in 1970 and represents less than a third of the 96 per cent of the workforce who were unionised in the early 1950s.

With 1.4m members, the Teamsters are still a formidable organisation, but that figure too is down from a peak of over 2m. Despite having helped the union rid itself of a reputation for corruption and mismanagement, Bob Carey, its president, is fighting off allegations of campaign improprieties in winning reelection last year. He badly needs the strike to succeed to secure his position.

The AFL-CIO, the country's leading labour federation, needs the Teamsters to win almost as much as Mr Carey. With a central element of the UPS dispute the company's reluctance to turn new part-time jobs into higher-paid full-time ones - a fundamental union objection to modern business practices - John Sweeney, the AFL-CIO president, has

been quick to throw his full support behind the strikers. "It is difficult to overstate the importance of this strike for us," says a senior labour movement official. "It has broad visibility and it raises fundamental questions about the future of the American labour movement and collective bargaining."

One indication that the dispute may mark a turning point for labour has been the public response. In contrast to other big industrial disputes in the past 15 years, polls suggest that most Americans are sympathetic to UPS worker demands.

This coincides with a much more assertive attitude taken by the AFL-CIO under Mr Sweeney's leadership over the past two years. He has led a drive to raise the public and political profile of the labour movement while boosting membership among traditionally under-represented low-paid service workers such as hotel employees. "The strike signals another step in the campaign of organised labour to be much more visibly

aggressive in their tactics," says Michael Baroody, senior vice-president for public affairs at the National Association of Manufacturers. "And it is very clear that there is some concern [for business] this would be a precedent for similar activity elsewhere over the coming year."

But even if the Teamsters achieve their goals, it may prove difficult to transform the labour movement's fortunes in the prevailing political context. Unions initially had high hopes that the election of Bill Clinton as US president in 1992 would mark the arrival of a labour-friendly administration after 12 years of hostile Republican rule.

In practice, however, Mr Clinton overrode strong union objections to push through the North American Free Trade Agreement in 1993. Last year he ignored union opposition in signing the new welfare law and he also overlooked the movement's first choice for a new labour secretary, Harris Wofford, a former senator, in favour of Alexis Herman, a White House staffer.

Undaunted, the AFL-CIO has remained a strong backer of the Democrats, giving a record \$35m to the party in the 1996 elections and planning to provide even more in future polls.

Although Congress is Republican-dominated, that financial clout has helped it successfully lobby lawmakers to prevent the passage of several bills of legislation designed to deregulate workplace rules.

Analysts also suggest the unions' higher political profile has been instrumental in Mr Clinton's reluctance so far in this dispute to invoke the Taft-Hartley act - a key labour law that gives the president the authority to halt any strike he deems is causing serious damage to the national economy or security.

Whatever the outcome, therefore, the disruption the UPS strike has already caused has put labour's drive to re-earn its "big" label firmly in the public eye. William Gould, chairman of the National Labor Relations Board, the government mediation agency, points out that in the context of a tight labour market the resonance of the part-time work issue may also have given unions the confidence to redouble their organising efforts.

"The most significant aspect of the UPS strike could be to energise AFL-CIO affiliates, get them more involved in Sweeney's programme and get them to go after contingent, marginalised employees," he says.

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A UPS striker raises a home-made T-shirt at a Teamsters rally in New Jersey

## Surinam to probe pyramid scheme

By Canute James in Kingston

Surinam's parliament has ordered an investigation into a pyramid-type savings scheme which collapsed in June after its manager said he could not continue paying promised interest of 120 per cent and could not return his clients' money.

The legislators want the operator of the scheme, Roepsingh Ramtahalsingh,

to be punished. There is no indication, however, when the government will begin its investigations. Parliamentarians have criticised the government for ignoring warnings from bankers and economists that the scheme could not be sustained.

The interest offered by Mr Ramtahalsingh was six times that offered by local banks. Many customers were Surinamese living in the Netherlands.

Bankers fear the collapse of the scheme could lead to violence in the former Dutch colony of 430,000 people, in north-east South America.

"This situation is still unresolved and people are very angry," one banker said yesterday. "They might do anything and could plunge this country into an Albanian-type civil war." Violence overtook Albania last year following the collapse of several pyramid schemes.

Action against Mr Ramtahalsingh so far has been limited to an attack by angry depositors on a supermarket which he owns.

It was looted, and four people who were arrested in the incident have been released.

The parliamentarians have asked Jules Wijdenbosch, Surinam's president, to explain why the government has not acted against Mr Ramtahalsingh.



## NEWS: INTERNATIONAL

## Iran's hardliners to challenge ministers

By Roula Khatami in London

Iranian President Mohammed Khatami's appointment of several moderates to his cabinet is likely to be challenged by hardliners in parliament today.

Mr Khatami sought compromise in picking his 22-man cabinet last week, appointing technocrats and political nominees from different tendencies. But he included moderates in key ministries such as Interior, Culture and Islamic Guidance.

Conservative deputies are expected to oppose several

nominees. "There will be emotionally charged opposition to some ministers appointed," said a western diplomat in Tehran. "But it is very difficult to say whether they will be rejected."

A vote of confidence in the appointments will be held after three five-hour sessions expected to end tomorrow.

Analysts and diplomats in Tehran say the ministers who will face resistance include Atallah Mohajerani, a former vice-president named to the Culture and Islamic Guidance Ministry, which sets the tone of

Islamic rule, deciding on how Iranians dress, what they watch on television and whether they are allowed to own satellite dishes.

Mr Mohajerani is the most controversial appointee and has been the target of attacks by hardliners for having once advocated talks with the US. Since his appointment, however, he has said that the situation has changed and that he now rejects dialogue with the US.

Other nominees who may face problems include Abdollah Nouri, the moderate interior minister-designate;

Kamal Kharazi, Iran's envoy to the United Nations, now named as foreign minister, who some hardliners say has spent too many years in the US; Morteza Hafti, the co-operatives minister, who is close to the mayor of Tehran, a strong Khatami ally; and Hussein Mozafari, the leftist minister of education.

The new president has some leeway. Iran's *majlis* (parliament) is considered to be dominated by conservatives because deputies last year elected as speaker the hardline Ali Akbar Nateq-Nouri, who was defeated by Mr Khatami in the May presidential elections. But while the conservative bloc has 110 out of 270 deputies and the moderates backing the new president can count on only 100 deputies, the allegiance of the remaining 60 independents is uncertain.

According to Bijan Khatami, editor of the UK-based monthly Iran Focus, the independents who voted for Mr Nateq-Nouri last year did so because they expected him to become the next president, and they may now choose to side with Mr Khatami.

"The average provincial deputy in Iran does not have

a political platform and does not care that much about factional divisions. What he cares about is how to get as much investment and infrastructure as possible into his own constituency," said Mr Khatami. "For that reason, for those deputies who are genuinely independent, it is better to side with the government, not with non-governmental factions."

"If Khatami gets his way it will be a very strong indication that the parliament will work together with Khatami."

"That will be the manifest end of conservative rule in the *majlis*," he said.

## Computer crash puts Mir in spin

By Clive Cookson, Science Editor

The main computer on Mir failed yesterday, sending the Russian space station into a "chaotic" orbit and forcing the three crew members to shut down all equipment except essential life support systems.

The computer fault, whose cause was not immediately known, is the latest in a long list of breakdowns and accidents that have beset Mir this year. It occurred shortly before Mir docked with an unmanned Progress supply ship; Anatoly Solovoy, the station commander, completed the docking manually.

Without the computer control, Mir cannot keep itself turned towards the sun, so the solar panels - its main power source - are no longer working. Emergency batteries are providing enough electricity for the crew's essential support systems.

Vladimir Solovoy, head of mission control, said the situation was serious but not life threatening for the two Russians and one American on board.

Kathleen Maliga, an official from the US space agency Nasa, agreed. "We'll

watch carefully but we're not worried," she said.

"There were no human errors," Vladimir Solovoy added. "It was a technical malfunction."

When the computer failed a month ago, sending Mir into a similarly disoriented spin, it turned out that one of the craft's previous crew had caused the problem by disconnecting a cable. That mistake was corrected a day later.

Mission control hopes that Mir's computer will be restored to normal operation this morning. But it has decided to delay - probably by two or three days - the attempt originally scheduled for tomorrow to begin repairing the damage inflicted on Mir by a collision with another Progress supply ship during a docking exercise on June 25.

Anatoly Solovoy and his flight engineer, Pavel Vinogradov, will try to re-enter the Spektr laboratory module, which has been depressurised and sealed off since the collision, to reconnect cables leading to its solar panels. The third crew member, Michael Foale of the US, will stay in the main station.

## Fears grow for tourism after Germany issues warning

## Kenya violence hits shilling

By Michael Holman in London and Reuters

The Kenya shilling fell to a new low yesterday amid fears that continuing violence in and around Mombasa would hit the country's important tourist sector.

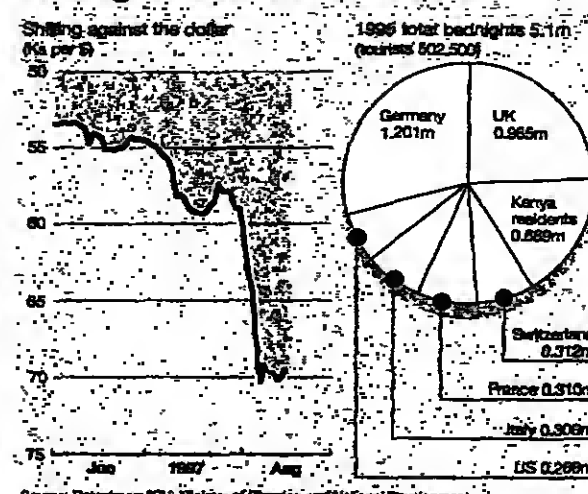
The bodies of two Kenyan policemen were found yesterday, bringing the toll to at least 35 dead from clashes since last Wednesday, while at Diani beach, a leading resort south of Mombasa, witnesses said yesterday that a workshop and a kiosk were set ablaze overnight.

The developments prompted warnings from the German and Italian foreign ministries to their nationals in Kenya. German holiday-makers were advised not to leave their hotel grounds, while Rome told travellers to avoid Mombasa.

About 100,000 Germans visit Kenya each year, accounting for nearly a fifth of the tourist trade, the country's largest foreign exchange earner, with gross receipts in 1996 estimated at \$480m.

Germany's foreign ministry said they were not advising the several thousand Germans on holiday in Kenya to leave the country, noting that "the violence hasn't been directed towards tourists and no tourists have yet been hurt."

## Shilling falls as tourists warned



Source: Reuters/Kenya Ministry of Planning and National Development

But the ministry added: "The situation has deteriorated considerably... We are advising tourists to Kenya not to leave their hotels and follow the instructions of their guides."

Although none of the main hotels has been affected, owners fear a further slump in a sector already hit by competition from South Africa. Tourist numbers fell from a peak of 676,000 arrivals in 1994 to 500,000 in 1996.

News of continued violence contributed to a further weakening in the shilling, which at one point yesterday fell 1.3 per cent to

70.68 to the dollar before recovering to 69.25. The currency has now lost 18.79 per cent since negotiations over an International Monetary Fund loan collapsed last month. Fund officials blamed the breakdown on the government's failure to take adequate measures to tackle corruption.

President Daniel arap Moi accused opposition leaders at the weekend of fanning ethnic rivalries on the coast, ahead of elections expected to be held this year.

Opponents accuse President Moi's ruling Kenya African National Union

(KANU) of seeking an excuse to clamp down on dissent by orchestrating the well planned attacks, which began with the killing of six police and eight civilians on Wednesday in raids on two police posts south of Mombasa.

Residents said those Kenyans killed were mainly people who originally came from outside the coastal region. They pointed to leaflets, hand-written in Swahili and distributed in the area.

"The time has come for us original inhabitants of the Coast to claim what is rightly ours. We must remove these invaders from our land," said the pamphlets, which echoed ethnic slogans painted on walls and roads near some of the clash sites.

Land shortage and ethnic rivalries have led to some of Kenya's worst political violence. In 1991, in the run-up to the country's first multi-party elections for nearly 23 years, some KANU politicians began calling for what amounted to ethnically "pure" homelands and so-called Kano zones dominated by the party.

The result was a spate of clashes involving firearms, spears, arrows and machetes. African Rights, the London-based human rights monitors, said 1,500 died.

## INTERNATIONAL NEWS DIGEST

## Seven die in Sidon shelling

Seven civilians were killed and 34 were wounded yesterday in a shell attack in Lebanon's southern port of Sidon attributed to the Israeli-backed South Lebanon Army (SLA) militia.

An Israeli military source in Jerusalem said: "It is probably a shelling by General (Antoine) Lahd's SLA to avenge the killing of the two youths whose father was a former battalion commander in the SLA."

The Israeli army said two Lebanese youths were killed and two wounded when an explosive device blew up a vehicle in the Jezzine area of south Lebanon hours before the Sidon shelling. A total of 16 shells landed in Sidon and its suburbs, forcing residents to abandon the city's main road. Agencies, Sidon

## EGYPTIAN MILITANTS

## Islamists killed in raids

Egypt's main armed Islamic group, the Jamaa Islamiya, yesterday warned of more anti-government attacks following the death of 13 militants and the arrest of 100 others in police raids.

"With the will of God we will pursue our jihad [holy war] against the enemies of God everywhere and we will uproot the roots of corruption and injustice," the Jamaa Islamiya said in a statement received in Cairo.

Al-Ahram, the Egyptian government daily, yesterday reported that police killed 13 militants and rounded up 100 others in a series of raids over the past few days, amounting to the biggest such operation in five years.

Among the dead were the "main leaders" of the Jamaa, as well as men held responsible for the massacre of nine Coptic Christians in a church in the southern province of Minya last February. AFP, Cairo

## ALGERIAN VIOLENCE

## Family's throats slit

At least 34 people have been killed in Algerian massacres blamed on Islamic extremists since last Thursday, newspapers reported yesterday.

A family of seven travelling on Friday to Mascara from the north-west port of Oran was forced to stop at a fake checkpoint by extremists who slit their throats, the Al Khabar daily reported. The killers stopped two other people nearby and also slit their throats, the paper said.

On Thursday, 15 people, including six children and two women, were massacred by an armed group in Douera, an Algiers suburb. In another attack, a home-made bomb exploded on Sunday in central Oran, injuring three people and badly damaging several buildings. It was the first attack in Oran, some 250 miles west of Algiers, since 1995.

Since July 15, 449 people have been murdered in Algeria, according to a toll compiled by AFP from press reports. AFP, Algiers

## IRAN-IRAQ RELATIONS

## Saddam to allow shrine visits

Saddam Hussein, Iraq's president, is to allow Iranians to visit holy shrines in Iraq from September 4, Baghdad radio said yesterday. Such visits by Iranians were suspended at the start of the 1980-1988 Iraq-Iran war. Reuters, Baghdad

## NEWS: WORLD TRADE

## Toyota to increase car production in Australia

By Elizabeth Robinson in Sydney and Bethan Hutton in Tokyo

Toyota yesterday unveiled plans to expand output in Australia, producing a new luxury family car at its Altona plant in Melbourne from the year 2000.

Harry Okuda, president of the Japanese carmaker, also announced that Toyota's third research and development plant, after Los

Angeles and Brussels, would be in Australia.

John Howard, Australia's prime minister, said Toyota's investment "represents large-scale and long-term investment in Australia's manufacturing industry". Last week, he outlined a more interventionist industrial policy, hinting certain sectors such as technology and telecommunications would receive assistance. Last week, the Metal

Trades Industry Association (MTIA) urged the government to consider taxation reform and investment incentives. Mr Howard said the government would shortly be responding to the suggestions.

He said Toyota's investment vindicated his decision two months ago to dismantle car tariffs gradually from 22.5 per cent to 15 per cent by 2000 when they would be frozen until 2005. The gov-

ernment is aiming to meet the commitment by the Asia-Pacific Economic Co-operation Forum for free trade by 2010 but resisted making immediate large cuts in tariffs.

In June, carmakers in Australia warned that lower tariffs could lead to the industry's demise and promised new investment and extra jobs if tariffs were maintained. Mr Howard said yesterday: "We recognised that

in the interim a great degree of predictability and certainty were needed, and that was the foundation of the decision to hold tariff levels after 2000." About 50 per cent of cars sold in Australia are imported.

MTIA said yesterday that both Mr Howard's review of industrial policy and Toyota's commitment to expand in Australia would give the country "good investment vibrations".

The new V6 car to be produced at Altona will be based on the Avalon model which has been made at Toyota's Kentucky plant since 1985. Initial annual production will be 20,000 units for the domestic market, starting in 2000. Additional production for export is likely but Toyota would not comment on export targets.

Toyota has invested around A\$1.8bn (US\$1.3bn)

in Australia over the past decade. Osamu Komori, president of Toyota Australia, said up to another A\$1bn could be invested by 2005. Toyota has continued expanding overseas production even after the yen has weakened.

Earlier this year, it announced plans for a second factory in the Philippines, a further factory in Thailand and expansion in Argentina.

## WTO confirms hormone ruling

By Nancy Dunn in Washington

The World Trade Organisation yesterday released a final report confirming its ruling that the eight-year European Union ban on meat produced with growth-promoting hormones was an unfair trade barrier. It was already known that the US and Canada, which brought the complaint, had won the dispute, and the EU has said it will appeal. However, the details of the finding had not been made public.

The beef hormone case was the first brought under the WTO's Sanitary and Phytosanitary Measures agreement. This requires countries to base food safety measures on scientific evidence.

"We are concerned that the report's conclusions limit the right of governments to determine the level of protection which they deem to be appropriate for their consumers," said Ella Krukowski, EU spokeswoman in Washington.

When the EU imposed its politically popular ban on meat treated with six hormones in 1989, it cut off virtually all of US beef exports to the EU, worth \$100m a year. The EU has never been able to produce scientific evidence for the ban.

According to US trade officials, three of the six hormones are naturally present in all meat and all people. Independent experts of the Codex Alimentarius Commission, designated to advise the WTO on such issues, reviewed five of the hormones and concluded they were safe. The sixth is rarely used.

"This is a sign that the WTO dispute settlement system can handle complex and difficult disputes where a WTO member attempts to justify trade barriers by thinly disguising them as health measures," said Charlene Barshefsky, US trade representative.

## Mexican telecoms rivals cry foul

New entrants to the liberalised market are complaining at Telmex's tactics

When Mexico threw open its long distance telecommunications market at the beginning of this year, the country was showered with praise. The change put Telefonos de Mexico (Telmex), the country's biggest private company, in competition with companies involving AT&T and MCI. It led to hundreds of millions of dollars of investment and better, cheaper services for customers. And all was made possible, said analysts, by the government's decision to institute a clear, open framework where before the monopoly carrier had held sway.

In a country where institution building is one of the government's chief tasks, it was an important step. Solid institutions have been rare in Mexican history and the telecommunications reforms, together with liberalisation in the market for natural gas, were marked out for special plaudits.

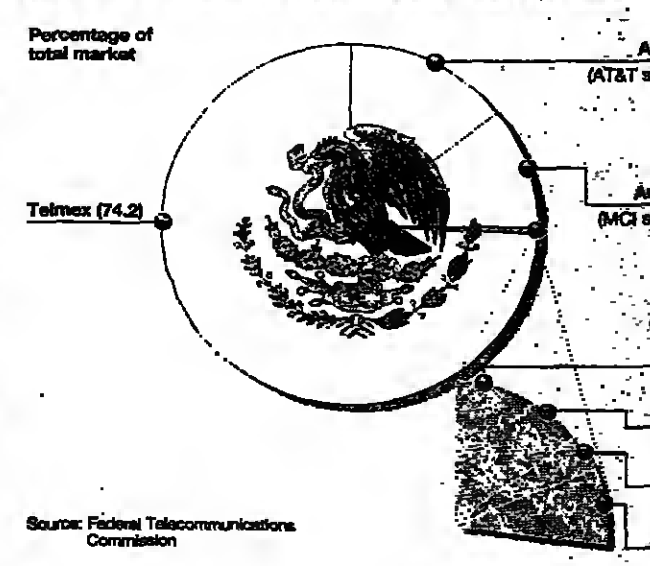
Now, seven months later, a note of discord has been sounded. Some competitors say the sector still suffers from a lack of regulatory clarity. Deadlines are being missed, decisions are being questioned and a lawsuit has begun.

In this particular case, Mexico's fledgling institutions may not be as strong as first it seemed.

Nevertheless, the year-old, semi-autonomous Federal Telecommunications Commission takes pride in its achievements. More than 6.7m lines have been opened to long distance competition in six months, a record-breaking feat. As a result, Telmex has lost at least 25 per cent of its share of the \$4bn long distance market.

"By the end of this year, Mexico will probably be the most deregulated telecommunications market in the world," said Carlos Casassus, the

## Mexican telecommunications market share



commission president. "We carried out the calendar for long distance liberalisation on time and I think we will carry out the calendar for local service on time as well."

However, one of the main newcomers is full of complaints about some aspects of the process. Avantel, a joint venture between MCI and Mexico's biggest bank, Banamex, has found corporate life in Mexico hard going for its plain spoken, largely US trained executives.

"We are not asking the government for any preferential treatment," said Dan Crawford, Avantel's chief operating officer. "We are just asking them to implement the law."

Avantel's complaint is that Telmex has intentionally taken its time to supply circuits needed to link it with prospective clients. Because of the delays, says Mr Crawford, Avantel

has lost over half the orders it once had for private lines, perhaps the highest volume segment of all its businesses.

Telmex says it was Avantel that erred in underestimating demand. Carlos Slim, Telmex's chairman, retorts that if Avantel does not like his company's service, it should build its own local network.

Avantel also has a suit pending against a decision obliging the various carriers to contribute \$25m to Telmex for its work to connect them to its network. Avantel says much of the work benefited only Telmex, and has won an order relieving it from the need to pay at present.

Next month, users throughout the country are supposed to be able to connect with any one of the seven competitors simply by dialling a three digit access code. But in the

absence of any agreement - or commission ruling - about who should be responsible for billing customers, the change is unlikely to go ahead on schedule.

"We need a basic agreement with Telmex before we can go ahead with this," says Jorge Escalona, chief executive of Alestra, a joint venture involving AT&T and the industrial conglomerate Grupo Alfa. "Imagine going into this if you do not have any agreement. You do not know how - or if - you can get your money back."

Another central part of the liberalisation process is an auction, scheduled for October, of wireless frequencies for local service. The plan is to break Telmex's de facto local monopoly by allowing companies to use technologies that should bring costs down. Yet here too there are worries about delays.

Mr Casassus says that though some preliminary deadlines have slipped, the first of the auctions is still on time for bids to be submitted as scheduled. He has, however, promised the auctions in the "near future" at various points throughout the last two years.

"We are never going to arrive at a situation of perfect information, where the process is completely free of problems. But these are relatively minor disputes," says Mr Casassus. "In the US, it has been over a decade since the telecommunications market was opened to competition and similar problems remain."

Telmex executives agree. A year after announcing its intentions to provide a service for Hispanics within the US, their company is still waiting for permission from the Federal Communications Commission.

Daniel Dombey

## DVD Forum stands by its disc format

By Bethan Hutton in Tokyo

The DVD Forum, a group of 10 consumer electronics companies, said yesterday it would "vigorously propose" the adoption of its format for DVD-Ram, the next generation of computer and audio-visual data storage discs.

Fears of a "format war" over recordable DVD - digital versatile discs - grew last week when Sony, Philips and Hewlett-Packard said they planned to produce optical discs similar to DVD-Ram in a different format to the one being developed by the DVD Forum.

The DVD Forum yesterday disclosed details of its disc format in a proposal to the European Computer Manufacturers' Association, an international standardisation organisation, ahead of an ECMA meeting in Kobe tomorrow.

The DVD-Ram Format Version 1.0 is a rewritable disc with a storage capacity of 2.6 gigabytes on a single side. The forum said it tried to satisfy the desires of computer manufacturers and other users, and to ensure expandability to the next generation of discs with a 4.7 gigabyte capacity.

Sony and Philips were still named on the list of companies supporting the format, despite their

announcement last week.

The DVD Forum will use the ECMA meeting to demonstrate the format's compatibility with the various DVD disc formats, it said. Sony and Philips claimed last week that their disc format was more easily compatible with existing DVD drives. The forum will also promote its format to other international standardisation organisations, it said.

Sony said yesterday that it saw its rival disc format as purely for use as a computer peripheral, not for audio-visual use. One possible use for the DVD Forum's proposed disc is as a high-quality alternative to video cassettes for home recording of films and television programmes.

"Sony is still very much part of the DVD Forum, and is involved in the discussions that are taking place. However, at this stage we have no plans to launch any products related to the DVD-Ram format version 1.0," the company said yesterday.

The disc which Sony, Philips and Hewlett-Packard plan to produce is based on technology more compatible with existing rewritable CDs, while the DVD Forum's disc is more similar to PD technology developed by Matsushita, Sony said.



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## NEWS: UK

Union leader warns that industry may be 'finished' by 2005 if doomed pit is not rescued

## Coal mine to close after only 2½ years

By Simon Holberton, in London

RJB Mining, Britain's biggest coal miner, yesterday closed the Asfordby colliery conceived by the previous Labour government in 1977 to underwrite the future of the coal industry into the next century.

The company said it faced geological difficulties which made it impossible to maintain safe and economic mine operations at Asfordby in the English Midlands. It produced 700,000 tonnes of coal last year of RJB's total production of 37m tonnes.

Richard Budge, RJB's chief executive, said everyone had tried hard to beat the geological difficulties at Asfordby, a mine that has absorbed public and private investment of about £360m (£585.8m). It was with "considerable regret" that the company and its workforce had "to accept that we can-

not sustain economic mining operations while providing a safe working environment for our workforce", he said.

His view was immediately challenged by Neil Greatrex, president of the Union of Democratic Mineworkers. He said the mine could be saved if RJB spent a "few million pounds" on investment, and he called on the government to intervene.

"The Labour government should back us up as we helped them get where they are," he said.

"I think that if nothing is done, then by the year 2005 the coal industry in Britain will be finished," Aides to Tony Blair, the prime minister, ruled out government intervention to help save Asfordby.

"It is entirely a matter for the commercial company involved," it said.

John Battle, science, energy and industry minister, said the closure of the

mine was a "great disappointment". He pledged to use government resources to ensure a future for British coal.

Mr Battle said the government was doing all it could to bring together the science and technology and energy departments' efforts to develop clean coal power stations. Clean coal technology is more efficient and produces lower emissions of pollutants, but it is more expensive than conventional coal technology and requires a subsidy to get it running.

Since coming into production in April 1995, Asfordby has produced 1.5m tonnes of coal. The colliery made operating losses of £16.3m in 1995 and £18.5m in 1996. It recorded a small profit in the first six months of this year.

Last week the mine suffered widespread flooding in an area that had only recently been vacated by miners.



Bill Rowell, managing director of RJB Mining, explains why the Asfordby pit is to close

## Toll plan may be road to trouble

Environmentalists are planning to mount a legal challenge to the government's £400m (£652m) plan to build the UK's first toll-paying motorway.

Officials of the Friends of the Earth organisation will meet lawyers this week to plan a legal battle against the privately financed Birmingham northern relief road, designed to reduce congestion on the M6 motorway which links the English midlands to the Scottish border.

The environmental group hopes legal delays will deter investors from financing the road, when the government is also reviewing its transport policy. It believes it can capitalise on strong local opposition to the road and another government-backed development in the region's green belt.

The road - to be opened in 2003 - will pass less than 3km from the site of a planned £1.5bn semiconductor plant on farmland north of England's second-largest city. Earlier this month, John Prescott, deputy prime minister, overturned an inspector's report which

'Green challenge' threatens both motorway scheme and inward investment opportunity

rejected the semiconductor plant because of the loss of almost 80ha of green belt land. Green belt areas are supposed to be protected from development to avoid the spread of conurbations.

Local members of the opposition Conservative party hope the two developments will form a springboard for their political recovery in middle England. Sir Norman Fowler, the party's chief environment spokesman, is one of only two Conservative MPs left in the Birmingham area.

Although the plans for a semiconductor plant were drawn up under the Conservative government, Sir Norman is now considering a legal challenge to the plan, which is close to the heart of his Sutton Coldfield constituency.

In the case of the toll road, MPs from the governing Labour party in the region have objected to the government's decision, after cam-

paigning against the project in opposition. But, with both developments, the government has given its backing to local business leaders, arguing that the regional economy is more important than the environment.

Manufacturers in north-west England and west Midlands are expected to benefit most from the two plans. Birmingham Chamber of Commerce describes the long traffic jams on the M6 motorway - which last up to 12 hours a day - as "an enormous economic and environmental burden".

But it is the semiconductor plant which has attracted most optimism, with the prospect of up to 4,800 jobs in a new industrial sector in the region. In an area which is dominated by traditional metal-based engineering - particularly the automotive sector - the chance to establish a foothold in high-tech

manufacturing has been chased for several years. Birmingham's Labour-dominated council, which owns the site for the proposed plant, says it is prepared to sacrifice the city's green belt only for such an important economic project.

Gerard Coyne, the council's economic development chairman, says: "Coming fast on the heels of the northern relief road, it must seem as if we are wiping out huge swathes of the green belt. But the essential importance of [the development] is to attract a key player in the potential growth sector of the next 10 or 20 years."

"There was an absolute economic necessity for a one-off project, and I am firmly convinced that in Birmingham this will be the only one-off."

Philips, the Dutch electronics group, is the front-runner to invest in the site. But inward investment experts at West Midlands

Development Agency say that up to a dozen potential investors are seeking such a site. Their confidence is based on the enthusiasm of Siemens of Germany to build its £1.1bn semiconductor plant in the region. A lack of suitable sites meant the project was transferred to north-east England.

But the Birmingham region's green belt remains attractive, largely because it commands a full range of UK grant aid as well as access to one of the largest regional aid funds in the EU.

For Paul Richards, chief executive of WMDA, the Siemens experience proved that large investment projects, particularly in electronics, could be attracted only by land which was unavailable in urban areas.

He says: "The advantage of [the proposed site near Birmingham] is that the ownership is in the hands of the local authority, and they can keep it green until they find the right project."

Richard Wolffe

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## Lottery operator loses case over bets

By John Mason in London

Camelot, the consortium which operates the National Lottery, yesterday lost its private prosecution of three leading betting companies when a court ruled that "49s", a rival numbers game, was a legal form of betting.

Magistrates in London ruled that the game, operated by bookmakers William Hill, Coral and Ladbrokes, was not an illegal lottery as Camelot had claimed. The members of Camelot are Cadbury Schweppes, the UK food and drink group; De La Rue, the security printers; Rascal Electronics; ICL, a UK offshoot of Fujitsu; and GTEch, the US lottery equipment supplier.

Screened live in betting shops, 49s involves customers betting on the likelihood of up to five numbers being randomly selected from a total of 49. As with the National Lottery, the numbers are marked on coloured balls emerging from tubes.

Magistrate Ronald Bartles said he was "wholly persuaded" by the betting companies' case that 49s was not a lottery because it involved fixed-odds betting, did not involve the distribution of prizes and the outcome was not affected by the number of players.

The legal defeat is the third suffered by Camelot over the issue. The lottery operator launched its campaign against 49s last year, claiming it threatened the revenues - some £9m (£14.7m) - raised for "good causes". However, last December the Crown Prosecution Service rejected Camelot's request for action against 49s, deciding the game was a legal scheme rather than a lottery.

Camelot indicated yesterday that it would continue its legal battle. A spokesman said: "We are disappointed by the ruling. However, this is just the first stage in the process of clarifying the law and we are intending to appeal."

Mr John Brown, managing director of William Hill and chairman of 49s, said the bookmakers were "delighted" at the outcome.

### UK NEWS DIGEST

## \$2m BP threat to Greenpeace

British Petroleum announced yesterday that it would sue Greenpeace UK and four of its members for £1.4m (£2.28m) over losses sustained during the pressure group's recent occupation of a mobile oil rig in the North Atlantic.

Greenpeace UK said it might go out of business if it lost the action.

The claim for damages follows the eight-day Greenpeace occupation of the Stena Dee, which ended on Sunday after police arrested four activists aboard the rig.

The rig was chartered to work at BP's Foinaven oilfield west of Shetland but Greenpeace intercepted the platform on its way from Norway. The rig was repeatedly blocked by Greenpeace divers and arrived at its destination last Saturday, five days later than planned.

BP said the size of the claim was based mainly on the £100,000 a day it cost the company to hire the Stena Dee. "Their [Greenpeace's] actions were unlawful," it said.

"They interfered with our legitimate business and caused us to suffer financial losses."

Michael Peel, London

### PUBLIC FINANCES

## Surplus of \$6.3bn recorded

Bumper value-added tax receipts left the public finances in unexpectedly good shape last month, with the government's revenue exceeding its spending by £3.8bn (£6.35bn).

July's surplus was more than double the £1.8bn recorded in July 1996 and increased speculation that the government may undershoot its Budget forecast for the public sector borrowing requirement (PSBR). The Treasury reported that July's total of just over £55bn in VAT revenue was the largest monthly cash figure on record.

The same period last year saw VAT receipts worth £3.8bn. The size of the figure points to stronger economic activity, in line with the projections in July's Budget. In the financial year to date, VAT revenue is up by 7.2 per cent on 1996. Inland revenue receipts also rose, by £1.4bn.

Overall central government spending is unchanged, compared with an increase of 1.7 per cent included in the Budget.

Richard Adams, London

### SCOTTISH EXPORTS

## Strong pound blamed for fall

Exports from Scotland fell nearly nine per cent in the second quarter of this year, mainly because of the high value of the pound.

The Scottish Council Development and Industry which compiles a quarterly index of export performance, said the outcome matched reports from its members who said they were becoming increasingly uncompetitive in many markets because of the pound's strength. Exports from a panel of 26 companies, which together account for half Scotland's total exports by value, fell by 740,000 (£652m) to \$4,068m compared with the previous quarter's figure of \$4,808m. The fall of 8.7 per cent in the index contrasted with a rise of 2.1 per cent that had been projected for the period.

James Buxton, Edinburgh

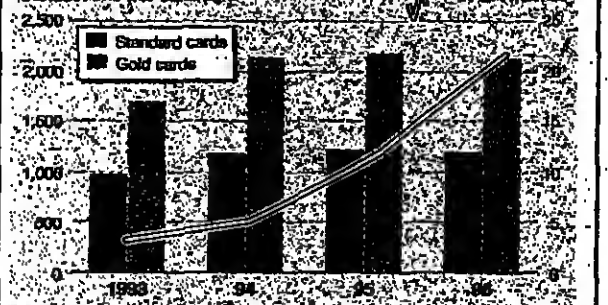
### CREDIT CARDS

## Qualifying salary lowered

Gold cards, once the preserve of the affluent, are starting to lose their lustre, says a new report.

The number of gold cards in issue has rocketed from 800,000 four years ago to 2.5m last year, according to Data-monitor, the management consultants. The 300 per cent increase has lowered the kudos that went with having a gold card in the late 1980s.

### Gold cards lose their lustre



Gold cards offer higher credit limits, lower interest rates and better perks, such as travel insurance, than ordinary credit cards. However, the annual fee is generally much higher. Card issuers have increasingly turned their attention to the gold card market as margins in the standard market have been squeezed by a surge of new entrants. Issuers have frozen the minimum qualifying salary for gold card holders for the last few years - typically at £20,000 (£32,600) - just above the national average salary.

Christopher Brown-Burns, London

### SUPERMARKETS

## \$32m price cut campaign

Safeway, the UK's third-largest supermarket chain, yesterday launched a £20m (£32.6m) price cut campaign intended to drive home to customers that it is no more expensive than its main rivals.

Roger Ramsden, director of brand marketing, said the company expected more than two-thirds of the £20m to be spent in price reductions. But customers who are still able to buy a comparable product more cheaply at one of Safeway's competitors within a three-mile radius, will get another pack of that product for nothing or their money back. Mr Ramsden said Safeway was not seeking to start a price war.

Alison Smith, London

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## Circuit makers mount defence

By Peter Marsh in London

Makers of printed circuit boards are being hit by a spate of legal claims from customers that the items are defective and threaten the operation of their own products.

The claims have led to the Printed Circuit Interconnection Federation, the main UK trade body for the industry, arranging a special insurance package for its members to protect themselves against heavy financial losses.

The package to protect companies against "consequential losses" resulting from their products being faulty is being offered by Zurich Insurance, the large Swiss-based insurance group. The policies are being arranged by Gernbridge, a broker based in Coventry in the Midlands.

The policies cover losses of up to £500,000 (£815,000) and typically add an extra 10 per cent to a company's general business insurance.

According to Brian Haken, the federation's director, roughly half the 140 PCB makers in his group have recently been faced with claims for damages arising from faulty components. In some cases, the claims can amount to more than £100,000 and can threaten a small company with bankruptcy.

The claims are not seen as a result of specific quality problems in the UK's PCB industry - which since 1990 has doubled annual output to about £600m and has a good productivity record. PCBs are increasing complicated, which makes it harder to guarantee that all will work to specification.

Moreover, many of the biggest customers for PCBs are multinational companies making anything from cars to washing machines which are increasingly eager to use legal procedures to claim damages for problems that could be extremely costly. Such faults could lead to expensive product recalls.

## Deputy PM deplores German dome contract

By David Wighton, Political Correspondent

John Prescott, the deputy prime minister, yesterday provoked an angry industry reaction by claiming that awarding the £6m (£9.8m) millennium dome contract to a German company was a "sad reflection" on the UK construction industry.

Industry leaders attacked the comments as unjustified and said the significance of one contract out of a £250m project had been overstated.

Mr Prescott's remarks also brought him into renewed conflict with Peter Mandelson, the minister without portfolio, who at the same time was praising the success of UK companies in winning the bulk of the millennium dome work.

Mr Prescott fuelled rumours about tensions at the heart of government by cracking a joke about Mr Mandelson's ambition to win a seat on the Labour's party's National Executive Committee, the party's policy

forming body. At a photo call after a tour of the Greenwich millennium site, Mr Prescott held up a jar containing a crab caught in the Thames.

Addressing the creature, Mr Prescott asked: "Do you think you will get on the executive, Peter?"

The jibe follows reports about friction between Mr Prescott and Mr Mandelson, who have been providing the government's public face while Tony Blair, the prime minister, is on holiday in France.

Mr Mandelson, who is in charge of the Millennium Exhibition, paid tribute to UK companies which have won 24 of the 25 large dome contracts so far awarded.

On a visit to Coventry-based Keller Ground Engineering, which will provide the dome piling, Mr Mandelson denied that the awarding of the contract of the dome skin to Munich-based Koebe Konstruktive Membrane was a bad reflection on the UK industry.

"The huge bulk of work and the value of what we are doing at Greenwich is being taken up by British companies," he said.

Mr Mandelson's comments were supported by Neville Simms, the chief executive of Tarmac and chairman of the Construction Federation major contractors group.

Mr Simms said he was "worried" by Mr Prescott's attack on the UK construction industry's failure to win the dome skin contract, which he pointed out was a highly specialist product for which no UK-based company had sufficient capacity.

One senior construction executive suggested that the fact that companies from outside the UK had gained only one of 25 large dome contracts might raise eyebrows in Brussels.

"There was open competition for all the work but it is extraordinary that UK companies did so well, particularly given the strength of the pound."

Dick Cole is refreshingly frank about why his party has no solid plans for implementing home rule in Cornwall, the county in the far south-west of England. "It seems a hell of a lot of work to do to bring out a paper no-one is going to read."

Sometimes everything to do with being a leading figure in Mehynon Kernow (Sons of Cornwall in the ancient Celtic language of Cornwall) must seem "a hell of a lot of work". Founded in 1951 to fight for Cornish national identity, the party is still depressingly far from a grand electoral breakthrough.

When it is suggested that conversation about the party need not dwell excessively on election turn out and voting patterns, Mr Cole eagerly agrees: "That suits us just fine."

Mr Cole and fellow Mehynon Kernow activists are still almost visibly shaken by the general election on May 1. Their 700-strong party, whose telephone number is connected to the back

## Sons of Cornwall wait in line for distant nationhood

Robert Wright meets some bitter separatists from a Celtic fringe party

shop of a now defunct picture

framers' business in the town of Liskeard, met the full fury of the Labour election machine in Falmouth and Camborne, Labour's main target district in the county.

The party averaged just one per cent in Cornish general election seats, but scored a respectable 10 to 15 per cent in county council seats it contested the same day. It is small wonder that - unlike some of their nationalist counterparts elsewhere - Mehynon Kernow is not making too many demands about the kind of devolution it wants.

"The Welsh proposals look brilliant to us, even though they look weak to the Welsh," said Mr Cole. "As for the Scottish proposals, they look absolutely magnificent."

Mr Cole's fellow activists, sitting round a pub table in Truro, the chief city in Cornwall, seem typical fringe party members. Mr Cole is an archaeologist. Conan Jenkin is a college lecturer. Pol Hodge, who has the keenest sense of the injustices visited on Cornwall, is an arts officer and Cornish language poet. Peter Wills, when he can find work, does economic research. All the men sport beards. Most are bitter.

Asked what keeps the party going, Pol Hodge says: "Generations of English oppression," before describing how his father was sent to pick up stones in a field while second world war evacuees were given Cornish children's school places.

"We make a good job of oppressing ourselves," Dick Cole

counters. "If we wanted [devolution] we could vote for it and take it."

The Cornish will be last on the list of Celtic nation self-determination stakes if the Scottish and Welsh proposals go through. However, if anyone thinks the Labour government's proposals for devolution to the English regions are going to pacify the Sons of Cornwall, they had better think again.

"It's going to be a seven-county parliament," says Mr Cole. "It's going to stretch to the other side of Bristol."

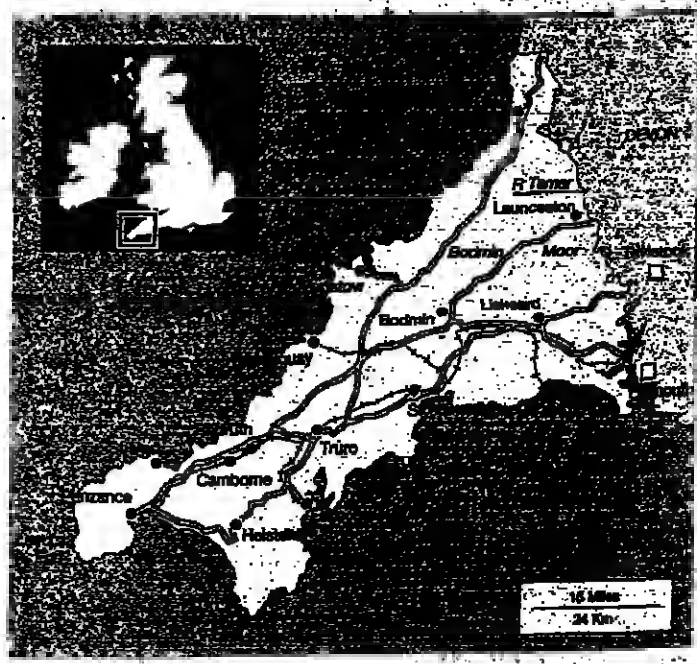
In fact, any attempt to include Cornwall with the rest of south-west England angers MK - particularly when it comes to coverage of rugby union's county championship, a competition regularly won by Cornwall in which

other participants take little interest.

Peter Wills says: "During the last rugby final, the commentators kept referring to the West Country. All the crowd were with Cornish flags and other elements of Cornish identity. You could see watching it that there's nothing to do with the so-called West Country."

Such discontent finally seems to be ending the electoral lean patch suffered by the party since 1979, when it scored four per cent in the general election.

Spirits have been particularly warmed by the response this year to the anniversary of the 1497 Cornish uprising. But a shake-up on a scale that would require Dick Cole actually to write down a policy on devolution seems as far away as ever.





# Kindlier cuts

Lasers are being used for increasingly diverse medical applications, writes Vanessa Houlder



Photodynamic therapy increases the already awesome accuracy of lasers

Photograph: Charles Houghton, Nursing Times

Light fantastic

When the first medical lasers were introduced in the 1960s, they ushered in a bloodless revolution. Their ability to cut with extreme accuracy, control bleeding and sterilise tissue has made them invaluable for a wide range of problems, including cancer, eye defects, moles, tattoos and birthmarks.

Now lasers are becoming even more versatile. Several applications have emerged in fields as diverse as dentistry, cardiology, medical research, non-invasive diagnosis and cancer, that do not depend on lasers' ability to cut soft tissue.

Anyone who dreads the dentist's drill will welcome the arrival of the laser as a viable, if expensive, alternative. "The use of lasers in dentistry is medicine for the 21st century," said Bruce Burlington of the US Food and Drug Administration in May, when it decided that a laser device could be used for removing tooth decay. The technique has been found to cause less pain to the patient, while allowing more of the healthy tooth to be saved when a cavity is being cleaned.

The FDA has also recently recommended conditional approval of a new generation of lasers for use in eye surgery. The technique, called Lasek, can treat relatively severe short-sightedness by lifting a flap in the cornea before removing material. Because it does not injure the clear membrane covering the cornea, its proponents say, it is less painful and may heal more rapidly than the widely used photorefractive keratectomy, in which an excimer laser (which produces a high energy ultraviolet beam) alters the shape of the cornea.

As well as allowing people freedom from spectacles and contact lenses, lasers are making ever greater inroads in cosmetic sur-

gery. For instance, there is increasing interest in using lasers to resurface skin. Surgeons are using high-energy pulsed carbon dioxide lasers to vaporise layers of skin so quickly that little heat is conducted to the tissues underneath and the thickness of skin removed can be controlled with great precision.

Lasers are also being used to prevent unwanted hair from regrowing. SLS Wales, a laser company, has sold 35 lasers for hair removal in the UK, Australia, New Zealand and South Africa. Although mostly used to remove facial hair, the technique could also help people who have had reconstructive surgery to prevent unwanted hair growing where the skin has been grafted.

Many promising medical applications of lasers are still experimental. One is using lasers to cut through hard tissue for bone surgery. At the University of Manchester, researchers believe that certain lasers can give more precise control for small bones on the face or spinal column than mechanical methods using drills and saws.

Another promising area is minimally invasive diagnosis. In this technique, known as optical biopsy, an optical fibre probe carries laser light to the tissues to be examined. The tissue fluoresces and scatters the light, which is transmitted back to a detector that compares its "signature" with that of healthy tissue. This technique, which was pioneered at the Los Alamos National Laboratory in New Mexico, has been used to detect bladder cancer and is being tested on cancers of the colon, stomach, cervix and eye.

Cardiology has also received attention from laser researchers. In particular, a technique called transmyocardial revascularisation - where a high-powered carbon dioxide laser creates new channels in the oxygen-deprived heart muscle - has been tested on patients who have failed to respond to conventional treatments. But PLC Systems, one of the pioneers in the field, received a severe setback last month when the FDA withheld approval of its TMR device, being unconvinced of its effectiveness.

Even when treatments have proved to be effective, many people approach laser surgery with trepidation. It is widely recognised that lasers should not be used if conventional surgery is equally effective. Although problems are rare, it is important that operators are either experienced or closely supervised.

Lasers for Life, a medical laser charity, is trying to fund the development of a simulation device to help doctors practise laser surgery. "We found it very surprising that on many occasions the first time a doctor uses a laser is on a patient," says John O'Brian of the University of Liverpool's electrical engineering department and chief executive of the charity.

Cost is another constraint. About \$20m (£136m) was spent worldwide on surgical lasers in 1996, according to Frost & Sullivan, market researchers. At tens of thousands of pounds, a laser is an expensive option for a hospital - even though it can cut costs by allowing patients to be released more quickly. This constraint could possibly be eased by substituting an alternative light source. Researchers at the Christie Hospital in Manchester, backed by the Cancer Research Campaign, are experimenting with using light from a xenon arc lamp - which costs a fifth as much as the equivalent laser - to treat cancer.

The idea that non-laser light could supplant lasers in some applications could have enormous cost benefits, says Neville Krasner, president of the British Medical Laser Association. Even so, he is confident that the role of lasers in medicine will continue to expand. "Almost day by day, new applications are coming through," he says. "There is a very bright future for lasers."

This concludes the series on new uses for lasers. Another series on medical equipment begins later this year.

Tom Mead on prospects for a universal substrate for chips

# A revolution in the making

In spite of the considerable virtuosity at alchemy displayed by scientists and engineers in the semiconductor industry, they have for decades struggled unsuccessfully with a seemingly simple materials conundrum.

Some semiconductors - the tiny current-conducting crystals that are the heart of all integrated circuits - can be "grown" as thin films of semiconducting material deposited on some base (substrate) materials. But due to fundamental incompatibilities between semiconductors and these materials, there is no single substrate where all, or even most, classes of semiconductors can be grown.

The development of a tough, inexpensive "universal substrate" would revolutionise the industry by allowing entire new classes of microelectronic and optoelectronic devices - new lasers, detectors, sensors, imaging systems, signal processing and computer chips, compact discs, data storage devices and dozens of other devices - to be produced.

That development may soon be accomplished by researchers at Cornell University in Ithaca, New York. They appear to have devised a technique that produces a "universal substrate" where any type of semiconductor crystal can be grown.

"This is preliminary work, but if it truly works, and we think it will, it could revolutionise the microelectronics industry," says Yu-Hwa Lo, Cornell associate professor of engineering and project leader.

Four considerations drive the research towards a universal substrate. First, robust, versatile silicon is less expensive than other substrate materials.

Second, there are many materials that cannot be used to form substrates, at any price, but from which very desirable semiconductors can be grown.

Third, many substrate materials are too fragile to withstand the rigors that may exist in some environments (acid attack, violent vibration, extreme heat or cold, abrasion by high-speed particles).

Fourth, the development of a universal substrate would open the door to the production of compound semiconductors. In a compound semiconductor, a number of semiconductor crystals, exhibiting a wide range of desirable electrical characteristics, co-exist on the same computer chip.

Mr Yu-Hwa's group calls their development "a compliant substrate". By slightly rotating a semiconductor thin-film and bonding it to a substrate, the new surface of the substrate becomes structurally compliant, permitting a crystal of any semiconductor material to grow on its surface.

In conventional semiconductor production, even a 1 per cent misalignment between the semiconductor crystals and the crystals of the substrate results in serious problems. In contrast, the new compliant substrate method has shown that it can overcome much more serious lattice alignment mismatches - up to 15 per cent - and still produce viable semiconductors.

The research team is trying to extend that tolerance of misalignment to 20 per cent so that another compound semiconductor, gallium nitride, can be grown on silicon compliant substrates. If it can be done, and they expect that it can, then high-quality blue and ultraviolet semiconductor lasers can be fabricated, as well as high-temperature, high-power electronic circuits.

The ability to grow single crystals of any material on silicon may breed an entire new generation of electronics - Ultra Large Scale Integrated circuits - having several types of semiconductor operating simultaneously on the same motherboard.

# Surgery comes under a new light

Lasers emit light with awesome precision. But an emerging technique known as photodynamic therapy allows them to be used with even greater accuracy. The approach relies on light-activated chemical "dyes" that are selectively absorbed in the tissue being treated. When the tissue is irradiated with a laser, only the stained tissue absorbs the energy and is destroyed.

PDT has potential applications in a number of medical specialties, most prominently in cancer. "It holds enormous promise," says Neville Krasner, president of the British Medical Laser Association. The drugs used in PDT are still mostly experimental. But the results of tests carried out on cancers of the mouth, lung, pancreas, prostate and uterus are encouraging. PDT can kill all the cancer cells in a tumour with little scarring and few side-effects - although patients have to avoid light until the drug wears off.

Researchers are also attempting to use PDT as a treatment for the "wet" form of age-related macular degeneration, when abnormal blood vessels grow in the retina, causing scar tissue to block the patient's vision. A photo-sensitive drug is picked up by molecules called lipoproteins, which are taken up strongly by the rapidly growing, abnormal blood vessels in the retina. A laser is then shone at the eye, which activates the drug in a way that stops the growth of the scar tissue.

The use of lasers in conjunction with light-sensitive compounds could also have a role in preventing gum disease. At the University of Manchester, researchers are using laser light and a photosensitising dye - which attaches to bacteria via a "monoclonal antibody" - to inactivate the bacteria that form plaque on the surface of teeth.

Although there are a number of obstacles to overcome before PDT becomes a mainstream treatment, it has already demonstrated that it could become one of the most powerful and versatile of the new generation of laser treatments.

VH

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## BUSINESSES FOR SALE

**NIKKO EUROPE PLC**

**INVITATION FOR EXPRESSIONS OF INTEREST (IN THE FORM OF NON-BINDING OFFERS) FOR THE PRIVATISATION OF ATHENS PAPERMILL S.A.**

Within the framework of the Greek Government's privatisation policy, the Industrial Reconstruction Organisation S.A. ("IRO") announces today that it intends to sell Athens Papermill S.A. ("the Company"). The IRO is the controlling shareholder of the Company and has been given the express authority to negotiate on behalf of the National Bank of Greece and the National Bank for Industrial Development ("ETEB"), whom altogether hold 99.7 per cent of the total issued share capital of the Company. Nikko Europe Plc ("Nikko") has been exclusively mandated by the IRO to act as Financial Adviser for the privatisation.

**The Company**

Athens Papermill is the largest manufacturer of paper and pulp in Greece. The Company operates three plants, paper mills in Athens and in Drama, Northern Greece, and a recently constructed conversion and finishing plant in Megalo Peftio, Attica. The Company is the leading Greek producer of writing and printing papers, of tissue paper products, and of polyethylene bags. The Company also has significant operations in other wood and paper related products and is the market leader in consumer tissue products, sold under the "SOFTEX" brand name.

For the year to 31 December 1996, the Company realized a turnover of GRD 44.7 billion on total assets of GRD 51.4 billion as at year end. The Company presently employs a total of 2,231 staff.

**Sale Procedure**

The sale will be effected through an international two-stage auction and according to prescribed procedures and timetables. In the first stage, Phase I, interested parties are invited to apply to Nikko for further information, which is and shall be treated as confidential, by requesting and executing a Confidentiality Agreement. A Confidential Information Memorandum will then be supplied to applicants, together with details of the procedure to be followed and timetable to be followed in Phase I.

Interested parties should note that the Phase I timetable calls for indicative non-binding offers to be made by Wednesday, 24 September 1997.

In Phase II, an invitation will be published for the submission of final binding offers within the scope of the applicable privatisation procedure. This invitation will make available the timetable for, and details pertaining to, the completion of the sale procedure.

Applications for the Information Memorandum should be made to:

Nikko Europe Plc  
Corporate Finance Department  
55 Victoria Street  
London SW1H 0EU  
ENGLAND  
Attn: Mr Ashley Potter  
Tel: +44 171 799 2222  
Fax: +44 171 222 3706

This announcement is issued by the IRO and has been approved for issue in the United Kingdom for the purposes of Section 57 of the Financial Services Act, 1986 by Nikko Europe Plc, which is regulated by the Securities & Futures Authority and is a member of the London Stock Exchange.

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FT Surveys

### Zeneca loses U'Pritchard

Zeneca has suffered its third high level defection this year with the move of research director David U'Pritchard who has become chairman of research and development at rival drugs company SmithKline Beecham.

The move came just over a week after the company lost John Mayo, finance director, to General Electric Company and a matter of months after Ed Dart moved from research head at the seeds division to run start-up biotechnology company Adprotec.

U'Pritchard, 49, has been based in the US for Zeneca running the research at Wilmington, Delaware and commuting to Zeneca's research centre near Manchester in England. At SmithKline, the commute will be between Philadelphia and Brentford, west London.

The move gives U'Pritchard a significant salary increase. At Zeneca he was earning less than £300,000 (\$480,000) a year. The man he is replacing at SmithKline, George Poste, earned £790,000 last year in salary, fees, benefits and bonus plus £140,000 in pension contributions.

Sir David Barnes, Zeneca's chief

executive, said that there was "no hard and fast rule" over whether research and development should be managed together.

Daniel Green, London.

### Departures at LGT after shake up

Warren Shaw, 47, one of the few African Americans running a big fund manager, has quit less than a year after his company, New York-based Chancery Asset Management, was bought for \$300m by Liechtenstein Global Trust, the financial services arm of Liechtenstein's royal family.

Shaw, who had spent 15 years at Chancery, resigned after a policy clash with the new owners. LGT bought Chancery to give it critical mass in the US institutional money management business and balance its GT Global operation, the seventh biggest manager of international mutual funds for US retail investors. Shaw was made chief investment officer of the combined operation and Penny Zucker, Chancery's president, was made chief operating officer.

However, LGT's hope that Chancery's management team would

beef up its performance appears to have been undermined by the different cultures of the institutional and retail businesses. LGT has now decided to separate the management of the two businesses in North America and this prompted Shaw's departure. Zucker, who is also leaving along with Jeffrey Trogon, Chancery's chief financial officer, and Rachel Arfa, chief legal officer.

Paul Loach, 46, managing director of LGT Asset Management in the UK, will oversee the institutional business in New York and chair the Chancery LGT board, and William Guilfoyle, president of GT Global, will manage the US mutual fund business in San Francisco. Loach will commute across the North Atlantic until a new chief executive and chief investment officer are found for Chancery.

The departures are the latest in a series of changes at LGT which described its SFR127bn (\$191bn) asset management business as "less than satisfactory" in its recent half year results. In February David Minella, resigned as overall head of asset management, and his job was added to that of Anton Schwaiger, LGT's chief oper-

ating officer, and private banking chief. In June, Joe Canavan, president of the group's fast-growing Canadian operation, left to start up his own company.

### Pelletreau joins US law firm

Robert Pelletreau, former assistant secretary of state for near eastern affairs, has joined Afridi & Angell, the international law firm, as resident partner of its Washington office.

Pelletreau graduated from Harvard Law School in 1961 and before joining the foreign service he practiced law with Chadbourne & Parke, the New York law firm.

Prior to his present appointment he held a number of foreign postings. He was assistant secretary of state for near eastern affairs from February 1994 to January 1997 and before that was US ambassador to Egypt, Tunisia and Bahrain. As ambassador to Egypt Pelletreau was a member of the US delegation to the 1991 Madrid Middle East Peace Conference and as ambassador to Tunisia he conducted the US dialogue with the Palestinian Liberation Organisation.

### ON THE MOVE

■ **GOTTEX FINANCIAL PRODUCTS**, the interest rate derivatives specialists, has appointed Mark Thé, 33, head of trading. He will join Coteaux Fund Management, Lausanne, as a member of the management committee and will have primary responsibility for trading the global swap fund and other interest rate hedge funds and investment products offered by the Gottex Group. Thé joins from ABN Amro Bank in Amsterdam.

■ **ELF ATOCHEM** has appointed Marie-Pierre Chevallier its new economic, planning and strategy manager. She joined the company in 1983. ■ **Senior German civil servant Klaus-Dieter Schaurle** has been appointed president of the new German post and telecommunications regulatory authority, which will take over from the Posts Ministry at the end of the year.

■ **SYBASE's Mark Hoffman** has resigned as chairman to focus on **COMMERCE ONE** where he is president and chief executive. Hoffman founded Sybase in 1984 and Commerce One in April 1997.

■ **Spanish Utility EMPRESA NACIONAL DE ELECTRICIDAD**, known as ENDESA, has appointed two deputy chairmen. Juan Echevarria Puig and Manuel Otera Luna. Echevarria Puig is the chairman of Enxesa's 75 per cent-owned subsidiary Fuerzas Electricas de Catalunya (Fecsa) and Otera Luna is the chairman of another seventy five per cent owned subsidiary, Cia. Sevillana de Electricidad.

■ **BHP** has appointed three senior managers to head operations in Melbourne. Gary Evans becomes the new corporate general manager, Lance Hockridge will be group general manager of human resources and Bob Flew will be the corporate general manager of international operations. ■ **AMP**, the supplier of electrical and electronic connectors and interconnection systems, has appointed Carol Ritter regional executive, Americas region, for the newly formed power technology division. Ritter was vice-president of general services and engineering and manufacturing assurance for AMP's Americas region. ■ **NORTEL CALA** has

appointed Adis Vila director of government affairs. Vila will be responsible for the strategic development and management of the Nortel government relations program for Latin America and the Caribbean and will be based in the Nortel CALA headquarters in Sunrise, Florida. Most recently, she was vice-president of international business development for the Vigoro Corporation in Chicago.

■ **BARNES & NOBLE**, the world's largest bookseller, has appointed Marie Toulant executive vice-president, finance. She was formerly a senior vice-president of Chase Manhattan Bank.

■ **ARTHUR ANDERSEN** has appointed Jim Wadia to succeed Richard Meselle as its world-wide managing partner.

■ **China's SHENZHEN DEVELOPMENT BANK** has appointed Zhou Lin as the bank's new president. Zhou was previously the president of the Shenzhen branch of the Guangdong Development Bank.

■ **SOCIETE GENERALE** has appointed Rupert Allan head of European fund management relationships. He joins from Credit

Lyonnais Rouse. ■ **CREDIT SUISSE ASSET MANAGEMENT** has announced three new appointments to its central and eastern European equity team with a view to expanding the fund range towards the end of 1997. Isabel Knight joins as an associate director specialising in central and eastern European equity markets. She joins from Brunswick Capital Management in Moscow.

■ **Dilidra Yusupova** joins from the central/eastern European banking group of Citibank in London. She has been appointed as an analyst specialising in Russian and other former CIS equity markets.

■ **MUELLER INDUSTRIES** has appointed Robert Gillespie its managing director of European operations. Prior to joining the company, Gillespie was a divisional vice-president brass rods and wires for Treuhand in France.

■ **DONALDSON, LUFTKIN**

& JENNETTE, an integrated investment and merchant bank, has announced six appointments to its emerging markets group, continuing the firm's expansion into international markets. In London, Christopher Rankin, 47, joins as director of emerging Europe corporate debt research. Robert Hartmann, 39, has joined as senior vice-president, head of emerging Europe cash sales.

Rankin was previously head of corporate debt research at ING Barings Securities. Hartmann joins from Chase Manhattan Bank. Wayne Chou, 41, joins from Bankers Trust as a vice-president in DLJ's Hong Kong office. Joining DLJ's emerging markets group as vice-presidents in New York to focus on Latin America are Charles Achua, 31, formerly with SBC Warburg, Diego Teran Lopez, 30, previously with Banco Nacional de Mexico, and Christiano Magarinos de Souza Leao, 26, who joins from Banco Excel Economico.

■ **Liz Taylor** has joined **EQUIFAX RETAIL SOLUTIONS** as group risk management director. Taylor's previous

employment included 10 years with Harrisons & Crossfield as group risk manager. ■ **ANZ INVESTMENT BANK**, the investment banking arm of Australia and New Zealand Banking Group, has appointed Robert Russell director of global finance. Russell was formerly head of European multi-national banking. ■ **SANTANDER**

INVESTMENT has recruited Philip Bullen, Christopher Goudie, Peter Hartley and Kathryn Matthews to build a global asset management business for Santander. All four were main board directors of Baring Asset Management and collectively had been responsible for the management of Baring's institutional asset management business worldwide except Asia.

**International appointments**  
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### CONTRACTS & TENDERS

**Sale of RailPlanner**

RailDirect Limited, a subsidiary of the British Railways Board, offers for sale its RailPlanner business. RailPlanner is a PC based software package providing rail timetable and rail journey planning. It covers Great Britain and is sold to the general public, companies, (including travel agents), and a wide variety of other organisations. Current annual rate of turnover is around £500,000.

Further information will be provided to interested parties who can evidence appropriate financial standing and have entered into a confidentiality agreement.

Sale timetable requires firm offers on 28 September 1997 and schedules sale completion by 15 October 1997.

Principals only should express interest by fax to the address below giving brief details of financial standing.

John Van Ingen  
British Railways Board, 24 Eversholt Street, London NW1 1DZ  
Fax: 0171 320 0891 Tel: 0171 320 0406

### LEGAL NOTICES

No. 003245 OF 1997

IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT

IN THE MATTER OF  
ICCH LIMITED  
AND  
IN THE MATTER OF THE  
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 30 July 1997 confirming the reduction of capital of the above-named Company from £6,750,000 to £150,000 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 8 August 1997. Dated this 19th day of August 1997  
ASHURST MORRIS CRISP  
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London EC2A 2HA  
Ref: WH1/N06900182

Solicitors for the Company

### LEGAL NOTICES

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11 August 1997  
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'La Rue du Tramway', 1938-39, by Paul Delvaux; part of the bequest from Mrs Gabrielle Keiller, golf champion and marmalade heiress as well as collector

## Heady days of high Surrealism

William Packer admires the Keiller collection in the Scottish National Gallery

The Scottish National Gallery of Modern Art, not 40 years old yet long-outstanding for the quality of its holdings, seems to be rapidly becoming a collector of remarkable collections. Three recent coups have had the mouths of much larger rivals watering, from London to Paris and New York. First came the collection and archive of Roland Penrose, active surrealist and close friend of Picasso for 40 years; then the papers and collections of Eduardo Paolozzi. Now, with the bequest of the collection of the late Gabrielle Keiller, whose interest embraced contemporary British art but was centred upon high Surrealism in all its aspects, the gallery is set to become one of the principal centres in the world for the study of Surrealism. With the opening next year of its annex, the Dean, across the road, the potential will be fully realised.

As so often with significant collections, the quality of what was put together in quite short a time is still surprising. Here, it amounts to some 173 framed

works and sculptures that Mrs Keiller kept on display at her house on Kingston Hill, and over 250 archive and library items. It is by far the largest gift the gallery has ever had and this current display, *Surrealism and After*, gives us much of its scope and even more of its quality. Mrs Keiller was a former golf champion and widow of Alexander Keiller, archaeologist and heir to the eponymous marmalade fortune. She began to collect modern art only in 1960, her interest triggered by seeing Peggy Guggenheim's collection at Venice, along with Eduardo Paolozzi's work then on show at the Biennale. Paolozzi was to remain a life-long friend, and his work from the 1940s to the '80s, prints, drawings and sculptures, constitutes one of the core groups within the collection.

From Paolozzi to Surrealism is no great step, and indeed in all her collecting of current art, the enduring surrealist or Dada connection, if at some remove, is always there to be made - Bruce Maclean; Barry Flanagan; Richard Long; Anthony Green; Richard Lindner; Ian Hamilton Finlay. There it is in the painted head by John Davies, and another head, cruelly masked in black leather, by Nancy Grossman. There it is, most clearly of all, in the Francis Bacon, that early, ambiguous, crouching figure, all coat, hat and hydrangea bush (1946).

But, Paolozzi and Bacon apart, her real heroes are those of the high days of Surrealism and Dada, from the 1920s to the 1940s - Magritte; Ernst; Tanguy; Delvaux; Dalí; Duchamp; Giacometti; Hannah Hoch. And what is remarkable is not just the particular quality of the works as such, but this curious consistency of feeling and interest with which, in bringing them together, Mrs Keiller invests them. Such is the gift of the truly creative collector.

The works in general are not over-large, and there is to so many of them an overwhelming sense of the intimate and the private, preoccupied, self-obsessed. While with many of the more

recondite publications and artists' books this sense is frankly sexual, it is more often incipient, latent, ambiguously so. Magritte concentrated yet oddly distant "La Représentation" of the female hips, navel and sexual parts with its contiguous frame. Delvaux's tram with nudes at twilight, and, most especially, Salvador Dalí's tiny "Signal de l'angoisse", of a golden, oiled girl turning away towards a golden, glowing desert, are but three typically remarkable examples in a remarkable display.

A fire at Kingston Hill in 1968 luckily left the collection largely undamaged, but it broke Mrs Keiller's heart. She moved, began to think about dispersing her collection, and missed above all the garden she had made. Her health deteriorated and she died in 1995, at 87. I remember her well, a familiar figure of the art world, always lively, generous and engaging. Her bequest, so much in character, is in fact her proper and appropriate memorial.

In its other rooms, the gallery has several small displays, high in quality, among them three fine

mystical landscapes by Paul Nash, and a group of Scottish Moderns that includes the fine group portrait by James Cowie, the figures set against an open window and distant landscape and, across the room, a strong portrait of his wife in red dress, languidly smoking a cigarette.

But most notable is the display of most of the gallery's Picassos, along with a loan or two, from the tiny early standing woman (1902) to a large artist-and-model painting of the late 1960s. So difficult and controversial when they first appeared, these late works seem more magisterial with each reappearance. There is also a poignant marine still-life, as beautiful in its simplicity as in its assurance. Calm indeed before the storm, it was painted in Paris in the spring of 1940, on Picasso's return from a visit to Royan.

*Surrealism and After* - works from the Gabrielle Keiller Collection: Scottish National Gallery of Modern Art, Belford Road, Edinburgh, until November 9; sponsored by McGrigor Donald Solicitors.

## The Proms/Richard Fairman

### A ready audience for Britten

Last weekend was nominated Britten weekend at the BBC Proms. In the past single composers have not been allowed to dominate any part of the festival, but perhaps this year a few interesting events coincided and the Proms decided to make a virtue out of necessity. A reappraisal of Benjamin Britten's importance as a composer is certainly going on at the moment. There is a serious interest growing up now in his operas, and to a lesser degree his small-scale works, both in Europe and the US, part of a larger desire all round to find new music worth playing. Britten's clear-headed musical style is finding a ready audience.

The big work of Britten weekend at the Proms was the *War Requiem* on Sunday. But more to the point the performers were also heading off from the Royal Albert Hall to give the first performance of the work at the Salzburg Festival. This is one of the key works of the 1960s: it is conceived on a large scale, a brilliantly planned statement of the composer's artistic and political beliefs, and it should have taken its due place in Salzburg years ago.

Judged purely on technical merit, the performance was of international standard. Andrew Davis had prepared the BBC Symphony Orchestra to a high level of precision and the combined choruses of the BBC Symphony and the City of Birmingham Symphony, together with the Choralists of Westminster Abbey, acquitted themselves

admirably. But it failed to work at a deeper level, especially in the Wilfred Owen wartime poems where Britten's heart is engaged as well as his mind. Hans Peter Blochwitz and Thomas Hampson, the tenor and baritone soloists, offered well-groomed singing, but their music is asking for the issues to be addressed frankly, with some of the grit of the battlefield. Eva Urbanová was the edgy, Slavonic soprano.

The highlight of the weekend was a staged performance of the third of Britten's church parables, *The Prodigal Son*. This was the strongest of the three parable productions by the City of Birmingham Touring Opera earlier in the year. By casting aside the Japanese Noh-play style and setting the parable in a 1930s English farming family, the group successfully breathed new life into one of Britten's driest stage works. There was a fine young cast of singers and alert playing from the Birmingham Contemporary Music Group.

Brief notes on the other events: the Westminster Abbey Choir's Sunday afternoon Prom of sacred choral music, performed to a good standard, reminded us how deeply rooted Britten was in the Anglican tradition. On Saturday evening, as part of a Prom despatched in businesslike fashion by the Norwegian Chamber Orchestra conducted by Iona Brown, Ian Bostridge sang a very English, lyrical but insipid performance of the *Serenade for tenor, horn and strings*.

### Company drama goes to waste at the Old Vic

The Old Vic has long been a problem. Lillian Baylis, who, in the 1920s and 1930s, ran both "the Vic" and Sadler's Wells, used to shake her fist cheerfully at the audience in her famous curtain speeches and cry "We must have better Monday nights, you boudiers!" One wonders now if those not-good-enough Monday nights were for performances featuring Edith Evans, John Gielgud, Peggy Ashcroft and other Baylis luminaries.

Since then, both Jonathan Miller (who ran an impressive regime at the Old Vic from the late 1980s up to 1990) and Peter Hall (who launched his new repertory company there in March) have followed Baylis in hoping for better Monday nights, and, alas, for better Friday nights and Saturdays too. Gradually, Hall has succeeded in bringing more and more of the boudiers in. And yet now - now that *Waiting for Godot* is selling out and a impressive-sounding *King Lear* is in rehearsal - the Vic's owners, Ed and David Mirvish, are putting the theatre up for sale again. The Hall season will end on December 6.

Will it leave a gap? Yes. The company's account of Caryl Churchill's *Cloud Nine*, for example, was the most entrancingly well-acted play in London during its three-month period in repertory; I saw it three times. *Godot* deserves its sell-out status, though I hope I can squeeze in to see it again.

More important than these individual successes, however, is the fact that had Hall's company lasted longer at the Vic, it would have left a much bigger gap. The

fun of watching a theatre company in repertory is cumulative: you admire Jane X in a supporting role on Monday, only to find her more admirable in a leading role on Friday. You watch these actors challenge themselves, develop their craft, show features of themselves that neither they nor you had anticipated; and you learn about theatre from watching them learn.

More regular visitors to the National Theatre will know how marvellous it is to see Michael Bryant in role after role over the years - he has been there since Hall's directorship - not also that few actors remain there for long periods in a series of plays. At the Royal Shakespeare Company, actors come to do three or more plays for just over a year, and then usually they are off again. In neither institution does one see young actors being carefully guided beyond their contributions to individual productions.

Perhaps it is old-fashioned to want companies to exert this kind of parental influence on young artists. And perhaps Peter Hall is not the person who could best exert that influence either. Nonetheless, seasoned actors such as Alan Howard and Denis Quilley, in the Old Vic *Godot*, are giving their freshest performances for years. It is very sad to think that all this may come to nothing on December 6 if Hall does not find his company a new home; and it is bitterly ironic to think he launched his regime with a play called *Waste*.

Alastair Macaulay

## The Edinburgh Fringe/Ian Shuttleworth

### The tyranny of image

The work of playwright Howard Barker - "complex, poetic and demanding on both actors and audience alike", as the programme notes have it - inspires admiration, respect, even reverence in certain quarters, but common-or-garden liking is not, it seems, an option. Last year's production by The Wrestling School (the company dedicated to staging Barker's works) of his (*Oracle*) *Vanya* brought to mind Peter Cook's E.L. Wist character: "People came staggering out, saying, 'Oh, my God, what a rigorous play!'"

*Wounds To The Face*, staged at Stella Artois Assembly as part of its Edinburgh Fringe theatre bill,

contains similar moral and intellectual preoccupations, but is altogether less daunting - partly, perhaps, because rather than consisting of a grinding continuous narrative it takes the form of a number of more or less discrete scenes, hearing titles such as "The Holy Orders Of A Terrorist" and "The Collaborator Reserves Part Of Himself". Occasionally - *mirabile dictu* - the Edinburgh audience even dares to laugh, having detected the odd, brief gout of humour in Barker's lines.

The theme is the tyranny of image, the oppressive insistence that outward form dictates identity. Characters include a woman fixated upon a mirror bemoaning her imagined deformities, another terrified to look at herself after 20 years' confinement "in a hole... without a mirror", and a reconstructive surgeon labelled "a critic of God" and a man, half of whose face has been blown off in a grenade attack and whose mother rejoices (insofar as joy is a Barkerian emotion) that once

again she will be the only one to love him.

This being Barker, of course, there are rumblings of a revolution in the background, so that the grenade victim may in fact be an insurrectionist whose act of violence misfired against him. One or two historical scenes are interposed: a masked man in the Bastille, a despotic emperor and the artist who had the effrontery to paint a lifelike portrait of him. Posters of a dictator's likeness are displayed, repeatedly torn

down and defaced on stage.

The cast of seven, under Stephen Wrenthorn's direction, submit themselves devoutly to Barker's fibrous, sinewy writing as he negotiates the labyrinthine metaphysics of image-fascism. The prospect of treading the same maze for ourselves rather than being led through it by the nose may be daunting for an audience, but at 95 minutes ought not to be insuperable. Enter the theatre prepared to work, and you will be furnished with an abundance of material; even I begin now to see Barker's...no, "appeal" is still the wrong word...

Stella Artois Assembly (venue 3) until August 30. 0181 226 2428.

## INTERNATIONAL ARTS GUIDE

### BERLIN

**CONCERTS**  
Konzerthaus Tel: 49-30-203080  
Berlin Symphony Orchestra: conducted by Jiri Belohlávek in works by Brahms and Dvorák. With violin soloist Viktor Tretjakov; Aug 21

### EDINBURGH

**DANCE**  
Edinburgh International Festival Tel: 44-131-473 2000  
● San Francisco Ballet: programme of two works by Balanchine - Stravinsky Violin Concerto and Symphony in C - and Heigl Tomasson's *Sonata*, set to music by Rachmaninov; with the Royal Scottish National Orchestra conducted by Emil de Cou; at the Edinburgh Playhouse; Aug 19  
● San Francisco Ballet: second programme opens with *Drink To Me Only With Thine Eyes* by Mark Morris to music by Virgil Thomson, followed by *The Dance House* by David Bintley, to music

to Shostakovich and Criss-Cross by Heigl Tomasson to music by Scarlatti and Schoenberg; Aug 20

**OPERA**  
● Ariadne auf Naxos: by Richard Strauss. This Scottish Opera production, directed by Martin Duncan and conducted by Richard Armstrong, provides an unusual opportunity to see the opera in the context originally conceived for it: as an operatic divertissement, to be performed in a version of Molière's play *Le Bourgeois Gentilhomme*. The play is performed in English in a translation by Jeremy Sams; at the Edinburgh Festival Theatre; Aug 20  
● La Verbera de la Paloma (The Festival of the Dove): music by Tomás Bréton (1894), text by Ricardo de la Vega. Performed in Spanish with English subtitles, in a production directed by Calixto Bieito. With the Scottish Chamber Orchestra, conducted by Miguel Roa; at the King's Theatre; Aug 18, 19

### LONDON

**CONCERTS**  
BBC Proms, Royal Albert Hall Tel: 44-171-589 8212  
● BBC Scottish Symphony Orchestra and the Helsinki University Male Chorus conducted by Osmo Vänskä in works by Sibelius. Including the London premiere of newly rediscovered tone-poem *The Wood Nymph*, with soprano Kirsti Tihonen and baritone Jukka Rasilainen; Aug 20  
● London Philharmonic

Orchestra: conducted by Sir Charles Mackerras in works by Schubert and Brahms, part of the Proms anniversary celebrations of both composers; Aug 21  
● London Sinfonietta: conducted by Markus Stenz in a programme of pieces billed as 1990s classics: Oliver Knussen's *Two Organs*, Simon Bainbridge's *Landscape and Memory*, Sir Harrison Birtwistle's *Ritual Fragment*, George Benjamin's *Three Inventions* and Thomas Adès' *Living Toys*. With horn soloist Michael Thompson; Aug 19  
● Orchestra of the Age of Enlightenment and Choir of the Enlightenment conducted by Mark Elder in works by Beethoven, Mendelssohn and Berlioz. All three works were conducted by featured composer-conductor Brahms in Vienna in 1873-4; Aug 19

### LUCERNE

**CONCERTS**  
International Festival of Music Tel: 41-41-210 3080  
● Andrés Schiff: recital of Schubert piano sonatas; at the Union; Aug 19, 21  
● Baritone Oliver Widmer: performs works by Schubert, accompanied by Andrés Schiff; at the Union; Aug 20  
● London Sinfonietta: conducted by Markus Stenz in works by Rihm, Benjamin and Knussen; with soprano Rosemary Hardy; at the von-Mos-Stahl-Halle; Aug 21  
● Royal Philharmonic Orchestra: conducted by Carl Davis in a programme including Tchaikovsky's 1812 Overture and

popular film themes; at the von-Mos-Stahl-Halle; Aug 20

### PARIS

**EXHIBITIONS**  
Jeu de Paume Tel: 33-1-4478 1250  
César: major retrospective of one of the most important French sculptors of the twentieth century. Tracing the different approaches and materials with which he worked, the exhibition includes almost 500 objects loaned from museums and collectors in France and abroad; to Oct 19

Musée National d'Art Moderne, Centre Georges Pompidou Tel: 33-1-4478 1233  
Fernand Léger: retrospective of the early modernist, who emerged from the Cubist revolution around 1910 to move towards abstraction, but whose experiences in the war and socialist principles led him back to figurative painting. The exhibition will travel to Madrid and New York; to Sep 29

### PESARO

Rossini Opera Festival Tel: 39-721-33184  
**CONCERTS**  
Rossini's *Petite Messe Solennelle*: performed by soprano Carmela Remigio, contralto Mariana Pertcheva, tenor Juan Diego Florez and bass Michele Pertusi. With pianists Arnold Bosman and Rosetta Cucchi, and Federica Iannella on harmonium; at the Teatro Rossini; Aug 19

**OPERA**  
● Die Barbieri di Siviglia: in a staging by Luigi Squarzina. With the Orchestre de Tuscany, conducted by Yves Abel; at the Teatro Rossini; Aug 20  
● Moïse et Pharaon: presented in the version he adapted for the Paris Opera in 1827, Rossini's opera - created as *Moses in Egypt* in 1818 - is staged by Graham Vick. With the Orchestra of the Teatro Comunale di Bologna, conducted by Vladimir Jurowski; at the Palafranceschi; Aug 21

### SALZBURG

Salzburg Festival Tel: 43-662-844501  
**OPERA**  
● Die Entführung aus dem Serail: by Mozart. New production. Conducted by Mark Minkowski and directed by François Abou Salem with designs by Francine Gaspar. With the Mozart Orchestra Salzburg and the Konzertvereinigung Wiener Staatsopernchor, at the Residenzthof; Aug 19  
● Le Grand Macabre: by Ligeti. New production conducted by Esa-Pekka Salonen and directed by Peter Sellars. Cast includes Willard White. With the Philharmonie Orchestra and the Konzertvereinigung Wiener Staatsopernchor. Co-production with the Théâtre du Châtelet; at the Grosses Festspielhaus; Aug 20  
● Wozzeck: by Berg. Conducted by Claudio Abbado in a new production directed by Peter Stein, with sets by Stefan Mayer.

Bryn Terfel sings the title role. With the Vienna Philharmonic and the Konzertvereinigung Wiener Staatsopernchor; at the Grosses Festspielhaus; Aug 19

**THEATRE**  
Der Alpenkönig und der Menschenfeind: by Ferdinand Raimund. Revival of Peter Stein's production, with sets by Ferdinand Wögerbauer. With music by Wenzel Müller; at the Landestheater; Aug 20

### SANTA FE

**OPERA**  
Santa Fe Opera Tel: 1-505-886 5800  
● Arabella: Janice Watson sings the title role of Strauss's opera, in a new production directed by John Cox. The conductor is John Crosby; Aug 21  
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demi-monde. Christopher Larkin conducts; Aug 19

### TANGLEWOOD

**CONCERTS**  
Tanglewood Festival Tel: 1-617-931 2000  
Pianist Peter Serkin: performs works by Takemitsu, Reger and Beethoven; Ozawa Hall; Aug 21

### WASHINGTON

**DANCE**  
Wolf Trap Tel: 1-703-218 6500  
Tharp: programme of new works presented by Twyla Tharp's new dance troupe; Aug 19

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## COMMENT &amp; ANALYSIS

Richard Notebaert and Bert Roberts offer opposing views on today's US telecoms ruling

## End this waiting game

Consumers will benefit if the long distance market is opened to competition

**&** In February 1996 Congress passed the Telecommunications Act to open the US communications markets to competition. But in the 18 months since then, Congress's vision of competitive telecoms markets has been undermined. Customers who expected the benefits of more choice, higher quality, better service and competitive prices, have been told to wait.

The Federal Communications Commission (FCC) can end this waiting game today by following the clear mandates of the act. At its heart is the simple idea of symmetry. When local markets open up to new competition, the long distance markets should open up as well - an idea Ameritech initially proposed to the FCC in 1993.

Since then we've done everything to hold up our end of the bargain. As a result our mid-western US markets are the most open anywhere in the world. We have agreed to interconnect our facilities with those of 56 other companies. So far 111 companies have petitioned regulators to compete in local service, and we have opposed none of them. More than two dozen companies sell phone services to residential customers today.

Our local competitors include companies many times larger than Ameritech such as AT&T and BT/MCI, as well as dozens of start-ups. Customers have switched more than 250,000 phone lines to competitors and that number grows by thousands each day.

Ameritech's commitment to comply with the letter and the spirit of the Telecommunications Act is widely acknowledged. In June the US Department of Justice said: "Local competition is beginning to take



Richard Notebaert: 'time to open up long distance markets'

root in Michigan." And even Tim Price, president of MCI, has called Ameritech "the most inviting to competition" of all the Baby Bells.

It is time to open up long distance markets to competition from Ameritech. The sooner long distance competition begins, the sooner customers will benefit: they will save almost half a billion dollars each year in the state of Michigan alone.

So why hasn't Congress's intent been realised? First, there is no realistic road map for competition. Whether or not the FCC opens long distance markets to Ameritech today, it can advance the process. It should reject vague tests and impossible hurdles and instead provide realistic guidelines for local companies to enter long distance.

Second, regulators must see through the stalling tactics of the long distance cartel. Long distance companies have been encouraged to believe the longer they stall full-scale entry into local markets, the longer they can preserve the status quo and guarantee their own profitability. As customers well know, the big three US long distance companies have raised prices in lockstep - 31 per cent from 1990 through 1996. Only new competition can reverse this trend.

In the meantime, long distance companies are quietly cream-skimming the most profitable business and residential customers. Again, they are undermining the purpose of the act, which was to bring the benefits of competition to every home and small business, not only the telecom elite.

Purely as a diversion, the long distance companies loudly complain how difficult it is to enter local markets. They moan about the capital requirements of the local service business, which is four times more capital-intensive than long distance. They pose hypothetical questions carefully calculated to stump regulators and forestall competition. And they have made it a habit to blame others for their own miscalculations.

Yet there's a growing recognition that they have created these problems for themselves. Our local markets are fully open to them today and dozens of entrepreneurial firms are growing quickly by making the competitive model work. It is high time that the giant long distance companies realise what the Telecommunications Act was about - taking risks in markets, not guaranteeing success; making investments, not seeking a free ride. The Telecommunications Act will

work, but only when companies are willing to take risks, make significant investments and compete against incumbents. Ameritech has demonstrated this in mid-western cable TV markets, where we have mounted the first large-scale competition against US cable TV monopolies. In the 50 communities where we are offering competitive cable TV service or building cable systems, competition is forcing cable companies to upgrade their facilities, add channels, copy our around-the-clock customer service and hold back on rate increases. This kind of competition really lives up to the promise of the Telecommunications Act. But customers deserve the benefits of increased competition not only in local phone service and cable TV, but also in long distance.

America's difficulties in implementing fully competitive telecom markets provide clear lessons for Europe as it shifts its markets to a competitive model. Regulators must set out from the start clear and realistic guidelines, enabling companies to enter each other's markets quickly. Regulators must also keep the interests of customers first, and not be ensnared by the tactics of companies that simply want to preserve past advantages. This is what we look forward to in Belgium and Hungary, two countries where Ameritech is helping to transform telephone companies into more competitive enterprises.

The Telecommunications Act challenges US regulators to start up competition, police it for fairness and trust that customers will make it work as it does in virtually every other business sector.

The act also challenges the industry to end its in-fighting, bickering and finger-pointing - in other words, to stop competing for rhetorical advantage and start competing for customers. Soon we will see who's up to the task.

Richard Notebaert is chairman and chief executive officer at Ameritech

## A way through the fog

Local monopolies have resisted all efforts to allow access to their markets

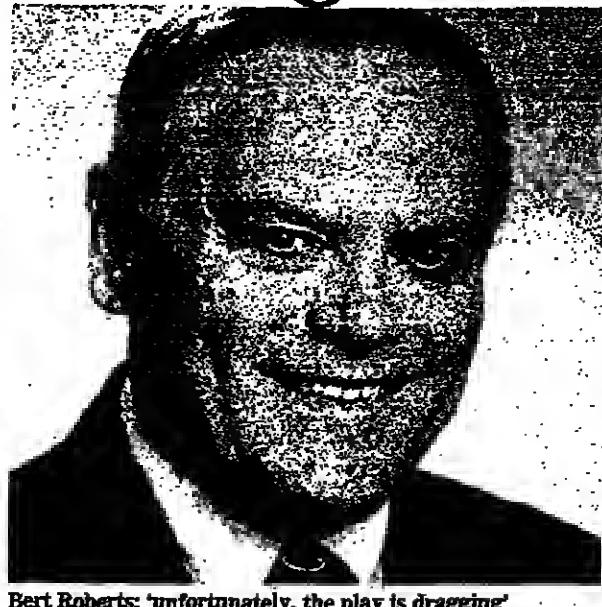
**&** One of the most exciting scenes of the information revolution is being played out as local telecom services move from monopoly to competition in the US. Following a worldwide trend toward competitive communications, the opening of the \$100bn US local market promises to turbo-charge the information economy.

Unfortunately, the play is dragging. Monopolists, like absolute monarchs of any description, do not part with power easily. And the clearly stated purpose of Congress in the Telecommunications Act of 1996 - robust local service competition - has degenerated into what Reed Hundt, chairman of the Federal Communications Commission, calls the "pervasive fog" of litigation, obfuscation, delay and obstruction.

The clear intent of the act has been systematically opposed by those who fear competition in their areas - the six regional monopolies: Ameritech, Bell Atlantic, SBC, Bell South and US West and GTE.

This resistance to competition is nothing new. We fought for years to win the right to compete against the Bell system. That robust competition in the US long distance market, with 600 different competitors, has brought to consumers the tremendous benefits of true competition: a 70 per cent reduction in prices, better service and a wider range of products.

The 1996 Telecommunications Act was designed to bring exactly those same fruits of competition to the local market. But local companies are merging rather than competing, seeking to thwart competition instead of advancing it, shamelessly exploiting their monopolistic power to do so.



Bert Roberts: 'unfortunately, the play is dragging'

Because of their long-standing monopoly, the regional companies control the last mile of connection to homes and businesses. For that reason, the US Congress and President Bill Clinton were clear that they should allow new competitors interconnection to their systems. That's the only route to competition.

To that end, the act mandated that the local monopolies must open their markets to true competition before they are permitted to sell long distance to their captive customers. In other words, first things first. But even with that incentive, the regional monopolies have systematically resisted all efforts toward vibrant competition.

The FCC issued comprehensive rules to open local markets. The local monopolies appealed to the courts - despite the fact that many of those same monopolies take advantage of market-opening policies in the UK that they resist in the US.

MCI and other new competitors were forced into dozens of arbitration proceedings to get interconnection agreements. But, again, the local monopolies appealed and delayed. In fact, more than a year after they were ordered to do so, the local monopolies have only ex-

clusive pricing and effective ordering systems, are in place; that anti-competitive conduct by the incumbent monopolies is prohibited; and that the rules of competition are vigorously enforced. In sum, they must ensure consumers have the right to choose their local telephone provider.

MCI is eager to provide the benefits of competition to those consumers. By the end of this year MCI will have spent \$2bn building our own local facilities. We've had to finance that infrastructure development out of our own cash flow, unlike the monopolies, which for decades have enjoyed cash-flow margins in excess of 40 per cent.

When we sought the right to compete against AT&T, we were a much smaller company pushing against a much larger door. Once we got through, more than 20m US consumers exercised their new freedom of choice in long distance and signed with MCI. Today, MCI is among the 50 largest US companies, with annual revenue of more than \$18.5bn. The local US market we are targeting is a tremendous opportunity, larger than the long distance market, with much greater margins.

We've no doubt that when the local markets are opened we'll find demand for the fruits of real competition equal to that we found in long distance. Opening markets is never easy. But MCI has learned both in the US and internationally that companies moving first into markets get most in terms of market share and profits.

We are confident that real competition will come to local markets. Increasingly, if belatedly, regulators recognise the value of competition. The full promise of the Telecommunications Act will only be realised with the help of rigorous regulators, eager competitors such as MCI, and enlightened consumers who can see through the monopolies' rhetorical fog to their own best interests.

Bert Roberts is the chairman of MCI Communications

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 1TA

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## US efforts to reform UN reflect bipartisan and centrist position

From Mr Philip Christenson.

Sir, It is a pleasure to read that the US is serving readers to paint Congressional efforts to force UN reform as a scheme of arch-conservatives, rightwingers and other fringe groups, as your Washington correspondent Bruce Clark did ("US on world mission to win UN reform converts", August 11).

It does readers an equal disservice to label criticism of European aid to Africa as a "hugbear for the right" and imply that the US shift in emphasis in Africa from aid to trade and investment is limited to the "US right". UN reform legislation this year was approved by a 75-23

vote in the US Senate and thus reflects a bipartisan, centrist position.

Congressional efforts to reform the UN began in 1983 when senator Nancy Kassebaum, normally considered a "moderate Republican", successfully proposed withholding full funding until the UN reformed itself.

For 14 years, both Republican and Democratic majorities in Congress have withheld UN funds until reforms were adopted.

Equally significant, the Clinton administration blocked the reappointment of secretary general Boutros Boutros Ghali because of

his failure on UN reform.

A bipartisan legislative/executive consensus to shift policy in Africa to trade and investment promotion also exists, led by congressman Jim McDermott, normally considered a very liberal Democrat. His bill, the African Growth and Opportunity Act, is co-sponsored by liberals and conservatives in both parties. It has been endorsed by Speaker Newt Gingrich and by President Clinton.

Philip Christenson  
2706 Unicorn Lane NW  
Washington,  
D.C. 20015, US

## Anglo-Saxon character hard to identify

From Mr John Dickie.

Sir, Understanding the genesis of Anglo-Saxon attitudes is a complex and inevitably subjective task which is not helped by inaccurate historical analysis ("The Wasp takes flight", 16/17 August). The chronology of Britain (or at least that part of it now known as England) goes roughly like this:

Tribes of indigenous Britons are conquered by Romans. The Britons are, to a greater or lesser extent, romanised, and follow their masters' conversion to Christianity. The Romans leave around 410 AD and Britain is

then invaded by tribes from the continent - most famously the Angles and the Saxons. They are pagans, although some Britons converted by them may have maintained their Christian worship.

Searching for an "indigenous Anglo-Saxon character" by turning back to before the Romans would, therefore, be difficult. The author's confidence in the "striking tolerance" of "English heathenism" is difficult to substantiate. Clearer is the lack of such tolerance from the Vikings, who play some role in the

genetic heritage of these parts, as indeed do the Normans.

Anglo-Saxon attitudes - at least from 1066 on - are a somewhat more complex mix of characteristics than your article suggests. Attempts to root the redesign of BA's logo in the views of "Britain" at some uncertain point, when the term had no more than geographical meaning, inform us about neither our past nor our present.

John Dickie,  
49 Burghley Road,  
London NW5 1UH, UK

## Let India celebrate, if only for a moment

From Mr Narayan Ramachandran.

Sir, Mark Nicholson ("India's 50-50 record", August 15), attempts a dispassionate assessment of India's path since independence. Alas, the operative word seems to be "dispassionate".

India is a vibrant, colourful, messy democracy that is 50 years old - a mere teenager among democratic nations. Need I remind Mr Nicholson that, in contrast, other democratic countries have had what could only be

described as troubled adolescence.

The US, for one, engaged in a civil war nearly 75 years after proclamation of a republic, abolished slavery over 100 years after independence from the crown, and has yet to elect a woman as head of state.

In India, individual liberty and freedom of opinion are enjoyed by every man, woman and child; big brother doesn't watch over a citizen's every action; the army has stayed confined to the barracks; and for a substantial part of the population life is uncomplicated and happy.

If only for a moment, let India celebrate. For in this celebration she can energise herself for the tasks that still lie ahead. A moment of rest, a pat on the back, and then onward. Step out of the way, Mr Nicholson.

Narayan Ramachandran, principal, Morgan Stanley Asset Management, New York, NY 10020, US

## Cry wolf is what Greens do best

From Mr Roger Bates.

Sir, It was good to see that the FT has not lost its ability, in these politically correct times, to analyse an issue on its merits.

Your Leader "Protesters in deep water" (August 12) accurately portrayed the level of scientific uncertainty still surrounding the climate debate as well as the "ridiculous" campaign that Greenpeace has been mounting against the continuing exploration for oil by Shell and BP.

I have watched and assessed Greenpeace's activities over the years and have become less and less convinced by it. For example, this present campaign began in the 1970s, based on its "limits to growth" arguments and its claims that we would soon run out of oil. However, energy prices continue to fall and the oil shortage and lower growth have still not arisen.

Ironically, the Greens insist that we now fulfil their early prophecies by abandoning oil exploration. Greenpeace demands that we must develop alternative, more expensive, and far less efficient, energy sources because burning fossil fuels induces global warming.

But is man-made warming likely to be dangerous? Anyone who is old enough to remember the "imminent ice age" scare of 25 years ago will know that crying wolf is what Greens do best.

Despite the fact that the world is getting safer and cleaner as wealth increases, Greenpeace may still find an issue worthy of its attention. However, like the little boy who cried wolf, it may have lost the interest of a responsible public irritated by its continued alarmist rants.

Roger Bates,  
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London,  
SW1P 3LS

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## FINANCIAL TIMES

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Tuesday August 19 1997

# Cyprus and the EU

The failure of talks on Cyprus last week underlined the intractability of the island's problems, despite the recent detente between Greece and Turkey. If there is any consolation, it is that the Cyprus problem remains intractable for a happy reason: neither side suffers acutely enough for the advantage of a settlement to outweigh the risks its leaders would take in making concessions.

The Greek Cypriots are still resentful at being excluded from two fifths of the island, in which many of them had their homes before 1974, but they are prosperous enough to live with it so long as they do not have to accept it as permanent. The Turkish Cypriots, living in an unrecognised state under economic embargo, are less prosperous but feel safer than when they were scattered throughout the island without the Turkish army to protect them.

The new element which might just change this balance of discomfort is the prospect of membership of the European Union, on which talks are due to open early next year. In theory this should put pressure on both sides, since neither can afford to be blamed for the continued division of the island.

Greek Cypriots know they will not gain admission to the EU if they are perceived as having blocked a settlement. The Turkish Cypriots have been

told, at least implicitly, that membership can go ahead without them if they are the ones who appear unreasonable.

So far, however, neither side has responded to this pressure. In the way the EU hoped, Glafos Clerides, the Greek Cypriot president, clearly feels unable to make any substantive concession before next February's presidential election, in which his Jewish parties are likely to arbitrate a run-off between him and a candidate backed by the island's cautious and still powerful communist party. Meanwhile his Turkish Cypriot counterpart Rauf Denktash, backed by the Turkish government, says he cannot negotiate under the "threat" of one-sided EU admission talks.

Mr Clerides should be tactically braver, and aim at having a peace process so far advanced by next February that moderate voters are unwilling to risk upsetting it. But the Turkish side - in Cyprus and on the mainland - needs to start thinking strategically. EU membership would offer Turkish Cypriots the chance to combine security with prosperity and freedom of movement. Together with a settlement giving them an important say in Cyprus government policy, it would also enable them to act as advocates for Turkey within the EU. Turks should see it as an opportunity, not a threat.

## Menem's legacy

Argentina retains its capacity to surprise. Unlike as it may seem, amid strikes and protest marches orchestrated by opposition unions, the country may be developing a stable two-party system, based on acceptance of President Carlos Menem's free market economic model.

The flamboyant Peronist leader is the architect of economic revival. Following hyperinflationary chaos in the 1980s, Argentina has achieved price stability and strong growth. Convertibility with the dollar has brought anti-inflation credibility, unlike in Mexico. This external discipline has been combined with a programme of austerity, privatisation, deregulation, and trade and investment liberalisation. Growth this year is forecast at 7.8 per cent.

As economic order has been restored, foreign investment worth \$23bn flooded in between 1990 and 1996. However, reform has also created an unpleasant side-effect: a rise in unemployment as previously feather-bedded nationalised industries shed labour. So far, thanks in part to suffocating labour market restrictions, higher growth has not been enough to drive unemployment below 16 per cent.

The recent strikes were called in protest against Mr Menem's free market policies, and a new labour reform plan. However,

the new Alliance for Work, Justice and Education - bringing together the centrist Radicals, Argentina's oldest political party, and the centre-left Frepaso, one of the newest - has given the unions only lukewarm support. Along with the more traditional Peronists, the alliance now largely accepts the benefits of economic reform. In campaigning ahead of October's mid-term elections, it supports convertibility and privatisation, together with policies to create jobs, improve education and spur institutional reform.

The alliance, which does not yet cover the whole country, could fall apart. But, a pact in the capital and in Buenos Aires province could be enough to deliver a majority in the lower house in October. This would leave Mr Menem with two years of uncomfortable cohabitation.

Moreover, the threat of a credible opposition in the 1999 presidential election, when Mr Menem is due to stand down, could mean that the initiative in the Peronist party passes to Eduardo Duhalde, governor of Buenos Aires and front-runner for the nomination. Whoever comes out on top, however, the signs are that decades of ineffective politicians and military meddling are at an end. If economic reform and political stability endure, Mr Menem will have bequeathed a remarkable legacy.

## The countryside

Such is the affection of English men and women for the countryside that many want to live in it. Fearful of this prospect, the Council for the Protection of Rural England believes the government should keep the urban masses where they belong. The CPRE's latest blast - against official estimates of the need for building land - is consistent with this purpose. In their own terms, its criticisms may be right. But the fundamental point is that the planning process is absurd.

At present, the control of land use for housing is governed by a system of central planning, laid down in the beyday of Old Labour, back in 1947. It starts with a government forecast of the number of households, the present assumption being that the number will increase by 4.4m between 1991 and 2016. Housing requirements are then planned in a "cascade" fashion, through layers of local plans, with requirements for the release of greenfield sites derived as a residual.

Happy to play this game, the CPRE argues in its report, *More Welcome Homes*, that government methodology means that local authorities underestimate the likely availability of "wind-fall" sites. As a result, planners overestimate the need to build on England's green and pleasant countryside. Their failure is to allow adequately for the rate at which the use of developed land is likely to change. Past

experience demonstrates that windfalls will arise in substantial quantities, with over half of all new housing coming from such sites.

Inevitably, the government denies the CPRE's charges. Yet this is only a technical dispute between two parties who share a belief in physical controls. The fundamental question is why government should be telling people where to live.

One answer could be that the countryside would otherwise disappear. It is worth noting, however, that in 1991 only 10.6 per cent of England's land was in urban use. Even the government thinks this should not be more than 11.9 per cent by 2016. The country is and will remain overwhelmingly rural.

A second answer is that there is a value to the countryside that housebuyers do not allow for in their decisions. This is certainly true. But it is still possible to use prices, rather than the blunt instrument of quantitative controls. Charges can be set for lost amenity value, with development permitted when developers can pay them.

The arrival of a new government supposedly converted to market mechanisms is an opportunity to reconsider town and country planning. The same objectives could be served more sensitively by market-based charges.

Whether the government is prepared for such a reform is one test of its radicalism.

The sleepy giants of the world's oil industry are stirring. Some of them, anyway. The giants are the state oil companies of Asia, the Middle East and Latin America.

For years most stayed at home, growing rich on their position as the landlords of the oil business. A few, such as those from Kuwait and Saudi Arabia, made occasional forays into their main export markets to buy refineries or filling stations. But when it came to building global businesses, searching for, producing and selling oil and oil products, western majors had the world to themselves.

Now, that may be changing. Companies such as Petronas of Malaysia and China's National Petroleum Corporation are using their political connections to challenge western oil majors at their own game. Both have bought companies as far afield as Kazakhstan and South Africa, as they move into that last and most lucrative bastion of the western oil majors: the international exploration and development business. Meanwhile, Venezuela's state-owned oil company has become the largest retailer of petroleum products in the US.

The state companies are hoping to benefit from their political advantages in emerging markets. They are willing to do deals in countries that are out-of-bounds to many of their western competitors. They have the backing of their governments and, in some cases, their national treasuries.

Success is far from assured. Earlier - albeit less ambitious - attempts to expand in the US and Europe came to little. And the companies still have considerable disadvantages to overcome, in particular a shortage of technical skills and of senior managers with international experience.

As Mr Mark Moody-Stuart, chairman of Shell Transport and Trading, the UK arm of the giant Anglo-Dutch group, says: "The competitive landscape has changed a lot because of the state oil companies." And if they continue to use their advantages to expand abroad, they could well provide the first big challenge that the western majors have seen for years.

Asia, the world's fastest-growing oil market, is home to the two most aggressive state oil companies: China's National Petroleum Company (CNPC) and Malaysia's Petronas.

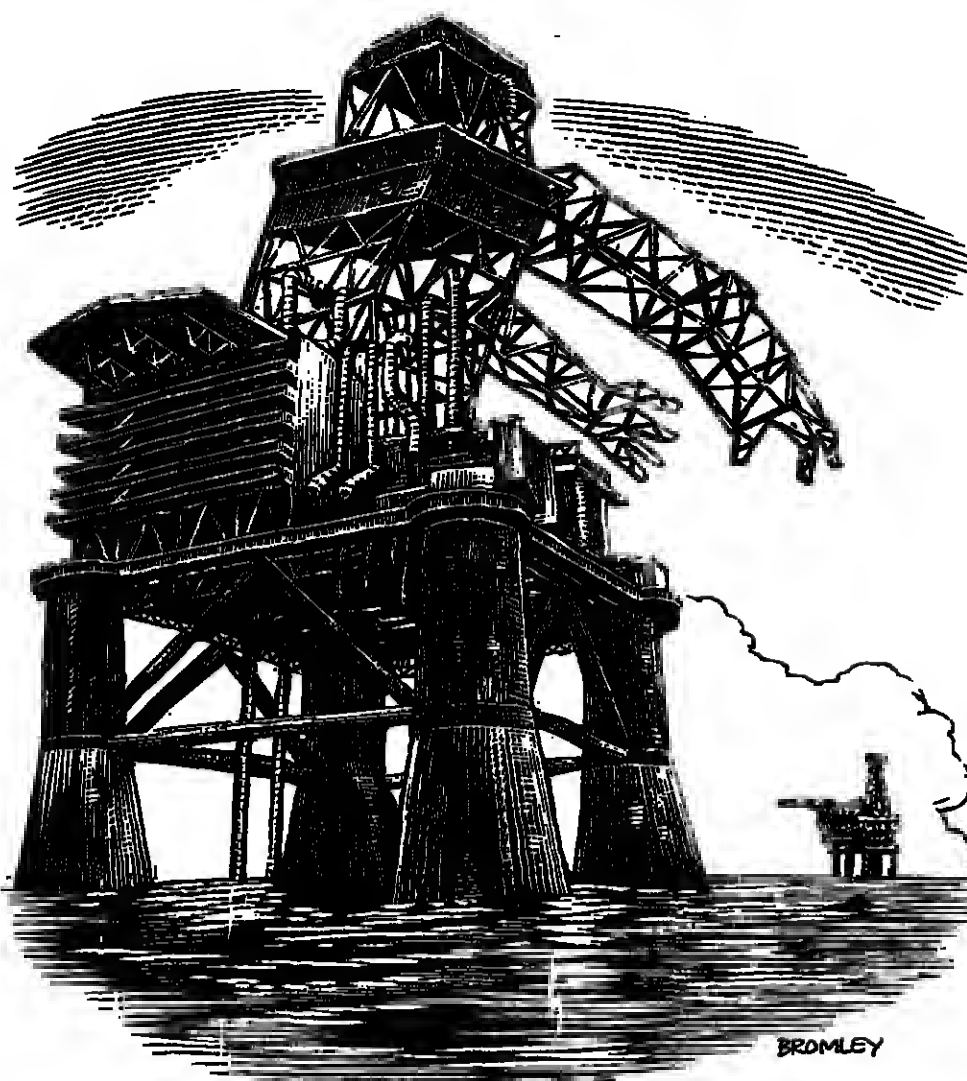
This summer CNPC, which has a near monopoly of China's oil market, bought a 60 per cent stake in the Aktymbinsk oil field in western Kazakhstan for \$325m in cash, plus a promise to invest a further \$4bn over 20 years. Much of this will be spent on a pipeline to the east that will reduce Kazakhstan's dependence on Russia (much Kazakh oil goes to world markets through Russian pipelines).

Despite strong US diplomatic pressure on the Kazakh government, CNPC won out over a consortium led by Amoco, the US oil group, for the exclusive right to negotiate a contract to develop Kazakhstan's giant Uzen field. Recently CNPC outbid several western oil groups to secure a \$550m deal to develop two Venezuelan oilfields. It also has a \$1.3bn agreement with Iraq to develop the At Abdab field when UN sanctions are lifted.

The motivation for CNPC's aggressive expansion appears straightforward. Although it is the world's third-largest oil producer, China's rapid economic growth is outstripping CNPC's ability to find new reserves to replace older fields. Some forecasts suggest China, which until a few years ago was self-sufficient in oil, may need to import 4m barrels a day by 2015; that is equivalent to half of Saudi Arabia's total current output.

"China fears a growing vulnerability," says Mr Fergus MacLeod, oil analyst at NatWest Markets in Edinburgh. He believes China may view neighbouring, oil-rich Kazakhstan in the same way as the US looks on Saudi Arabia, as a "captive" source of future oil supplies.

In Malaysia, declining domestic oil production is also one reason behind the international expansion of Petronas. From his office in the 88-storey Petronas twin towers that dominate the Kuala Lumpur skyline, Mr Mohamad



Hassan Marican, the president and chief executive officer, oversees an ambitious plan to turn the company into the first "Islamic major". By 2005, he says, Petronas will derive about 30 per cent of its revenues from overseas operations, compared with less than 10 per cent today.

Earlier moves by Middle Eastern producers to diversify were motivated largely by a desire to secure specific markets in the main industrialised countries. Even Kuwait, which diversified most ambitiously did so slowly and somewhat half heartedly. By contrast, Petronas wants to translate its political and religious connections into a broad-based international energy group, with much of its investment directed at Moslem and developing countries.

Earlier this year Petronas defied US sanctions on Iran by joining with Total of France to develop two offshore Iranian oilfields. It is also active in North Africa. Syria and Sudan and is

keen to enter Burma, another country which is becoming a no-go area for US companies.

Companies such as Petronas and CNPC have several advantages over their western competitors. The most important of these is their willingness to invest in countries that are seen as politically embarrassing for their western counterparts. "In areas where western companies find it unattractive, many national companies simply say: 'whoa, here's an opportunity,'" says Art Smith, chairman of John S. Herold, a US oil consultancy.

Some analysts think Pertamina of Indonesia and PTT of Thailand will eventually follow CNPC and Petronas into the international arena, buying upstream assets. They too face declining domestic reserves and fast-growing economies.

But others wonder whether they have the political support, or the technical competence and the large amounts of cash that such a step requires. Pertamina

could also be hampered by its membership of Opec. Members of the exporters' group may be reluctant to invest in production capacity in countries not subject to the group's restraints lest they are accused of undermining the Opec production ceiling. That may explain why some of the biggest state oil producers in the Gulf have made only tentative steps into the upstream business internationally.

It is true that the National Iranian Oil Company has recently joined international consortia developing giant fields in the Caspian Sea off neighbouring Azerbaijan. "But that is driven by the geopolitics of that region," says Julian Lee, an analyst at London's Centre for Global Energy Studies, and should not be interpreted as a sign of a general international expansion.

In the downstream sector, however, matters are different. Here, Gulf companies have argued that foreign investment in refineries and marketing outlets secure long-term markets for their crude oil. So in these areas, Opec members have been adding to the pressure on the oil majors.

The trend towards greater international downstream investment by Gulf producers is expected to accelerate. Arab Petroleum Investments Corporation, the finance group owned by 10 Arab oil producers, this month announced that for the first time it will expand beyond the Middle East.

The downstream business has also been the preferred method of expansion for Petrobras de Venezuela (PDVSA). Over the past few years PDVSA has focused on the US, which consumes 70 per cent of Venezuela's output.

The expansion of large producers into the international downstream industry has coincided with a general retreat from downstream operations by western oil majors, which complain about low margins and fierce competition in this part of the oil business. In contrast, the state companies seem willing to accept low rates of return in order to secure markets for their crude.

But it is the entry of the state or newly privatised companies into the international upstream sector that poses the greatest threat to the western majors, which are enjoying their highest returns from international oil development projects since 1984. BP, for instance, recently reported a 19 per cent return on capital employed.

The battle is likely to be tough. There does not appear to be room for all the newcomers and the established companies. Mr Franco Bernabé, chief executive of ENI, the partly privatised Italian oil group, believes that "the explosion of the number of competitors" will prove unsustainable. It is possible that, to avoid what they see as damaging competition, the two sides will seek alliances, linking the advantages of western majors - such as technical and marketing skills - with those of the newcomers, especially their reserves.

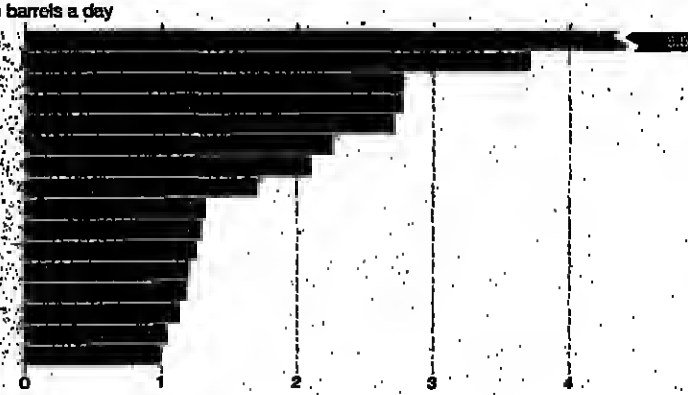
But that is unlikely in the short term. "The problem is that the newcomers are all following the same strategy," says Mr Bernabé. "Everyone wants to be an international oil major."

### Worldwide oil production - the top 16

Companies producing more than 1m barrels a day

Saudi Arabia	10.5
Russian Federation	9.5
United States	8.5
China National Petroleum Corporation	7.5
Petrobras de Venezuela	6.5
Exxon	5.5
Shell	4.5
Amoco	3.5
BP	3.5
British Petroleum	3.5
Agip	3.5
Eni	3.5
Marathon	3.5
Occidental Petroleum	3.5
Lyondell	3.5
Phillips	3.5
Chevron	3.5

Source: Price Waterhouse/Petroleum Intelligence Weekly



## Shoe of force

Ernst Thomke, the Swiss banks' favourite troubleshooter, is in trouble. The man who helped salvage the Swiss watch industry, restructure its electric utilities and rescue its only aircraft producer is in danger of being outmanoeuvred by elderly henchman Horstmann Ande-Bühler.

Thomke was hired nearly two years ago by sprawling Swiss conglomerate Oerlikon-Bührle to turn round its Bally luxury shoes business. It has taken longer than expected as Thomke has also been busy rescuing textile machinery company Saurer, but now Bally has his undivided attention.

Thomke's prescription is to raise money by a partial flotation, but that has gone down like a lead balloon with 70-year-old Ande-Bühler, daughter of the founder of Oerlikon-Bührle, who controls 31 per cent of the company and is believed to be grooming her son Gratian, a McKinsey consultant, to take over.

Thomke has waged a media campaign and threatened to quit if he doesn't get his way. But yesterday's showdown with Ande-Bühler and the Bally board ended with Thomke still in post. Maybe Ande-Bühler is gambling that Thomke, now 57, doesn't

want to be remembered as the man who failed to rescue Bally.

### Crime count

It's not just Japanese companies that are reorganising: Tokyo police say the country's yakuza criminal gangs have started a spot of quasi-corporate "restructuring". Not that the line between legal and illegal business is always easy to see in Japan - a yakuza's divisions may be gambling and prostitution rather than finance and marketing, but their executives operate openly out of similar plush offices.

The Yamaguchi-gumi yakuza syndicate, which has 18,600 "employees" around Kobe, is leading the drive for slicker crime, say police. It overhauled its internal structure after some district leaders died and employee numbers have fallen by 100. It's believed that natural wastage was involved, rather than anything rougher.

Police say it's being done so that internal funds "will not provide the police with an excuse for arrests", which can disrupt the serious business of crime. It seems to have worked: no Yamaguchi-gumi feuds have been reported this year.

Observer hopes that this apparent success for Japanese efficiency won't encourage the yakuza to follow every

management fad: de-layering could be very unpleasant.

### Original

Another one bites the dust at Phillips. Tom Butler, the British chief executive at the Dutch electronics group's Origin computer services offshoot, is to "pursue interests outside the company". Still, his nine months in the top job was far more than Geoffrey Carroll, his American predecessor.

The two were recruited together from EDS of the US - Carroll as boss, Butler as finance chief - after Henk Cohen, who oversaw the creation of the unit, moved to an unnamed special project before quitting to join a headhunting agency.

There's no immediate successor to Butler, who's a chartered engineer. The unit's 11,000 staff in more than two dozen countries will be tended meanwhile by Jan Hommen, who joined Phillips in April as chief financial officer and is on record as saying he would "like to see Origin become less dependent on Phillips".

Hommen, a Dutchman who spent 19 years in Pittsburgh with Alcoa, has been supervising an overhaul of Phillips' own IT setup, and has made clear that he is no sucker for the latest software wizardry. "At times you need to decide to skip a

generation - you can't always do what the computer companies tell you to."

Now that's an attitude which finance directors elsewhere will welcome.

### Millennial vision

Bill Clinton isn't letting the millennium go to his head, though maybe it's hard to get excited about a year that marks the end of your presidency. Not for him the hype and flashy projects other world leaders are embracing.

Just before dashing off to his Martha's Vineyard holiday, Clinton decided that something should be done about the year 2000 and unveiled the "White House Millennium project".

Americans will be treated to a series of presidential lectures, exhibitions on the nation's cultural and scientific heritage and a couple of free concerts. There was a statement that year 2000 computer software problems would be taken seriously, but no specific pledge.

It's not the sort of stuff you might expect from a president seeking to secure his place in history, but it does have one redeeming feature for the boy from Little Rock. The whole thing will be orchestrated by the First Lady, supplying Hillary with reasonably uncontentious business for a while.

## Financial Times

### 100 years ago

Useful Map of Yukon  
We have received from the publishers, The Mining and Geographical Institute, a copy of a very useful map of the Yukon District, showing the different routes from the coast, plainly marked in red, giving distances &c. It has been compiled, we learn, from actual drawings made on the spot, recently received from the Klondike District. It may be had from stationers for 6d. We have also received from Mr Edward Stanford a map which besides showing the position of the Yukon fields, takes in a much wider area, giving the whole of Alaska with the complete course of the Yukon river.

### 50 years ago

French Premier  
M. Ramadier, the French Prime Minister, despite opposition from the Communists and the trade unions under their control, failed to-day, at the Socialist Party Congress at Lyons, to prevail against its Left Wing adherents. Though the Congress was unanimous in voting confidence in him and unanimously refused to consider a re-entry of the Communists into the Government, it finally adopted a programme which by no means reflects the moderate views with which the Premier is associated.



## Israel releases \$12m owed to Palestinians

 By Judy Dempsey  
 in Jerusalem

Israel yesterday started to release payments owed to the Palestinian Authority which were suspended this month in retaliation for last month's suicide bomb attack in Jerusalem.

The decision to release \$12m (\$12m), or about 30 per cent of the financial transfers owed last month, was made after Benjamin Netanyahu, Israeli prime minister, consulted his foreign and defence ministers.

The prime minister's office said the decision was based on "partial co-operation" by the Palestinian Authority in investigating the suicide bomb attack, and its swift arrest and sentencing of three Palestinians for the murder of an Israeli taxi driver last week.

Washington welcomed the partial thaw in relations between the PA and Israeli

government. The US and European Union have criticised the withholding of financial transfers, which include customs and excise duties, VAT returns, income tax and health insurance fees paid by Palestinians working in Israel and the settlements.

Diplomats said the measures were counter-productive and could lead to further tension in the West Bank and Gaza, where unemployment is as high as 35 per cent. The financial transfers are used to pay the public sector.

According to the International Monetary Fund and Palestinian finance ministry, the revenue clearance system, or financial transfers, agreed in April 1994 between Israel and the Palestinian Authority, forms a significant and stable source of revenue for the PA.

"The transfers make up about 60 per cent of our total annual revenue," said Atef

Alawneh, PA deputy finance minister, yesterday.

The ministry expects the transfers to amount to \$513m this year, compared with \$419.8m in 1996, although it will be difficult to meet this target as long as Israel maintains the closures reimposed on the West Bank and Gaza after the bombing attack. Maher al-Masri, Palestinian trade minister, said the closures were costing the PA \$2m a day in lost revenue.

The PA's revenues for this year will total \$514m and expenditure will total \$566m, leaving a deficit of \$52m.

The PA wants the international donors to finance the deficit but both the IMF and the World Bank are insisting that the PA consolidate its accounts. The IMF estimates that up to 25 per cent of domestic revenues are being diverted to accounts outside the ministry of finance.

## Caricom hits at US move to penalise Cuba links

 By Centre James  
 in Kingston and  
 Nancy Dunne in Washington

A new trade row is brewing over attempts by US congressmen to force other countries to reject closer ties with Cuba.

Members of the Caribbean Community (Caricom) have rejected moves by US legislators to penalise them for attempting to foster trade links with the government of Fidel Castro, Cuba's president.

Caricom has persistently criticised the 35-year-old US economic embargo on Cuba, and the more recent Helms-Burton Act, which is intended to punish businessmen and companies involved in US property confiscated by the Cuban government.

The 15-nation Caricom last month decided to consider a Cuban request for a free trade treaty, similar to that which the community is negotiating with Colombia, Venezuela and the Dominican Republic.

Hennis Ros-Lehtinen, US congresswoman and chairman of the House subcommittee on international economic policy and trade, has introduced legislation which, she says, "ensures that US tax dollars do not indirectly fill Fidel Castro's coffers".

Under the legislation, countries that sign free trade agreements with Cuba or permit its membership in their trade pacts would be denied foreign aid - other than humanitarian assistance - and sought after tariff reductions equal to those gained by Mexico in the North American Free Trade Agreement.

The legislation did not constitute trade sanctions, Mr Ros-Lehtinen said. Nor did it affect current trade between the US and Caribbean countries or prevent them trading with Cuba.

Caricom ambassadors said in a letter to Ms Ros-Lehtinen: "Our relationship with Cuba is based on our firm belief in the principle of non-interference in the internal affairs of sovereign states as well as the right of states to self-determination. Further, this relationship takes into account the reality that Cuba is a Caribbean nation and part of the western hemisphere."

Several prime ministers from the region, including Percival Patterson of Jamaica, who is the chairman of Caricom, have visited Cuba recently. Trade and economic co-operation agreements have been signed on each visit. However, Caricom officials say Cuba was not being considered for membership.

The Cuban foreign ministry has described the US lawmakers' move as "political terrorism".

## THE LEX COLUMN

### Fragile calm

World equity markets yesterday conformed the Cassandra. Losses were modest - a far cry from the meltdown many had predicted following Friday's heavy falls. But the outlook remains fragile. The economic fundamentals may remain essentially supportive - Goldilocks growth in the US, easy monetary policy in Europe - but the seeds of uncertainty have been sown. And just as momentum investing drove the market up, so it could work in reverse. The Dow Jones industrial average is now more than 7 per cent below its 8,259 peak. If it falls 10 per cent - the accepted definition of a correction - it is a fair bet this would precipitate further heavy selling.

While short rates remain on hold, it is difficult to see the bottom falling out of Wall Street. But the combination of concern about slowing corporate earnings, rising bond yields and dollar jitters makes further advances unlikely. And recent net outflows from US equity mutual funds simply confirm the readiness of investors to take profits when valuations look stretched and sentiment is uncertain.

Continental European markets will take their lead from Wall Street. But they have an additional fear - German monetary policy. Their rally has been fuelled by the 35 per cent fall in the D-Mark against the dollar. But expectations of higher German rates threaten to reverse the trend. Much will turn on whether the Bundesbank is prepared to risk jeopardising European economic and monetary union - the possible price of a move to tighten policy.

Argos, the UK catalogue retailer, is having a tough time persuading investors to take a steady view of its prospects. Last year they turned a deaf ear when the management warned against further expectations. The result was a spike in the share price, followed by a dramatic fall to earth when the company issued a profits warning in January. Now, unsurprisingly, the company is having trouble re-establishing its premium rating - the share, some 20 per cent off its 1996 peak, has underperformed even the dismal retail sector by 20 per cent over the past year.

Judging by yesterday's interim results, no early improvement is likely. True, the past eight weeks have seen 8 per cent like-for-like

FTSE Eurotop 300 index  
5443.9 (-6.6)



Source: DataStream/FT

sales growth compared with 1996. But higher interest rates and the tailing off of windfall spending make this unsustainable. And while the company has gained market share in most product ranges, this is no guarantee of exceptional performance. Indeed, with costs rising at some 4 per cent a year and gross margins set to fall by 0.5 per cent in the second half, it has to generate nearly 5 per cent like-for-like sales growth just to stand still.

With initiatives such as Argos Direct, new stores in Holland and the premier points scheme, the company is working hard to keep sales growing faster than the market. But their sustainability is questionable, and the underlying trend is less convincing. Taken with the group's higher risk profile, the share, on a market rating of around 17 times 1997 earnings, looks fairly valued.

UK food retailers

Safeway, the supermarket chain, will be delighted by the nonchalance with which investors greeted its latest price promotion. It has been in the tricky position of being regarded as charging higher prices than the UK's other big three supermarket groups. But it has been loath to do anything to spur competitive reactions. Its price pledge, however, comes at a time when the industry is anxiously playing up the possibility of a ceasefire on competition. So whereas Tesco's similar pricing initiative last September sparked a sell-off in supermarket shares, Safeway's move was greeted with the investment equivalent of shrugged shoulders.

UK supermarkets have been

going through one of the most harrowing periods of this decade. There have been no price wars and J. Sainsbury has rebuilt sufficient momentum to lose its label of loose cannon. But the reason for the lull is simple. Given the dramatic drop in inflation, supermarkets had lost volume growth momentum and were under much more pressure not to sacrifice their margins.

However, inflation is creeping back, and the likes of Tesco will be anxious to protect their customers from Safeway. Besides, with £2.5bn (\$4bn) of annual capital expenditure from the big four this year, and not a lot of market growth, something has to give. The smaller retailers like Kwik Save and the Co-op may end up giving the most. But Safeway has provided a timely reminder that there is no easy oligopoly yet in sight.

Energis

Should shareholders in the UK's National Grid be jubilant that a minority stake in Energis, its telecommunications network, may be floated? It is not as if the Grid would be relinquishing control to someone better qualified. Nor does it need the cash. So the only purpose would be presentational - focusing investors on Energis's attractions and, with luck, dragging Grid shares up too.

This is not to be sniffed at. But it is a sign of management failure that the option is even on the agenda. The fact is that Energis would be worth more as part of a bigger telecoms combine. It could then draw on a larger group's technical and marketing expertise. Big costs like customer support and product innovation could be pooled. In short, why float a minority stake when a trade buyer should pay more?

Let us dismiss, charitably, the possibility that the Grid bankers to retain control. Maybe the right buyer just cannot be found. But, if so, a full demerger would be a better second-best. Valuations for Energis are wildly divergent - figures from £500m (\$815m) to £1.2bn are bandied about. Both a flotation and a demerger would doubtless deliver something in between. But that is a lousy outcome if you are an Energis bull. Hence the beauty of a demerger: unlike a flotation, it would let Grid shareholders choose. Bulls could keep their shares and enjoy the benefit if Energis sparked - or got taken over.

## Relations thaw as Yeltsin meets Chechen president

 By Christia Freeland  
 in Moscow

Relations between Moscow and the Chechen republic eased yesterday after a cordial Kremlin meeting between Boris Yeltsin, Russian president, and Aslan Maskhadov, Chechnya's leader.

But the two sides are still sharply divided over the question of Chechen independence, an issue which prompted Russia's failed 1994-96 war against Chechen separatists.

Mr Maskhadov, a former Soviet officer elected Chechen president in January, seemed pleased by the results of his discussions with Mr Yeltsin. He praised the president and expressed confidence that the issue of independence could be resolved.

"Today, I saw in the president of the Russian Federation a man, perhaps the only man, who can decide things and make peace after 400 years of

war," Mr Maskhadov said. "Decisiveness is necessary, one must take responsibility, and I think Boris Nikolayevich has such qualities." The Chechen leader's words suggested that recent threats from Grozny to cut all contacts with Moscow had been dropped.

Always tense, the relationship between Chechnya and Russia had worsened over the past few weeks, the casualty of Moscow's failure to compensate the battered region for war damages and a spate of hostage-takings in Chechnya. The disputes risked jeopardising plans to route an international oil pipeline through the contested republic.

Yesterday's meeting struck a friendlier note, although the two leaders still appeared at odds over sovereignty. "We are pressing today for the Chechen republic of Ichkeria [the Chechen name for the region] to be recognised as an independent, sovereign state," said Mr

Maskhadov. "Only time will tell what its form will be."

By contrast, Mr Yeltsin said he was ready to negotiate a long-term political deal with Chechnya, but made clear he would stop short of granting full, formal independence.

"We will solve the problems as we did with Shamiev," the Russian leader said, referring to the extensive autonomy granted to the republic of Tatarstan and its president, Mintimer Shamiev.

The president's words were echoed by Ivan Rybkin, chief Russian negotiator in Chechnya, who said no pact with the region would be allowed to infringe upon Russia's territorial integrity.

"There may be many types of status for members of the Russian Federation," Mr Rybkin said. "There may be different sorts of enclaves and so on. In any case, I am deeply confident that Russia's territorial integrity will not be harmed."

## BT-MCI

Continued from Page 1

on its difficulties in "executing its local strategy". It explained that MCI was "presently exploring a series of steps to improve financial performance and to continue to respond to the increasingly competitive environment in the core business". adding: "These decisions have not been finalised."

MCI declined to comment on the issue of renegotiation but said it had met its disclosure requirements and review terms were still meeting this week. BT refused to comment.

## German unemployment

Continued from Page 1

coet higher than a year before. Official figures for the second quarter will be published on September 10.

Mr Rexrodt said manufacturers' incoming orders were 12 per cent higher in the second quarter than the same period a year before, with foreign orders 43 per cent higher.

But the government's growth forecast for 1997 was unchanged at almost 2.5 per cent. A rate of between 2.5 and 3 per cent is expected in 1998. Mr Rexrodt saw "no dangers"

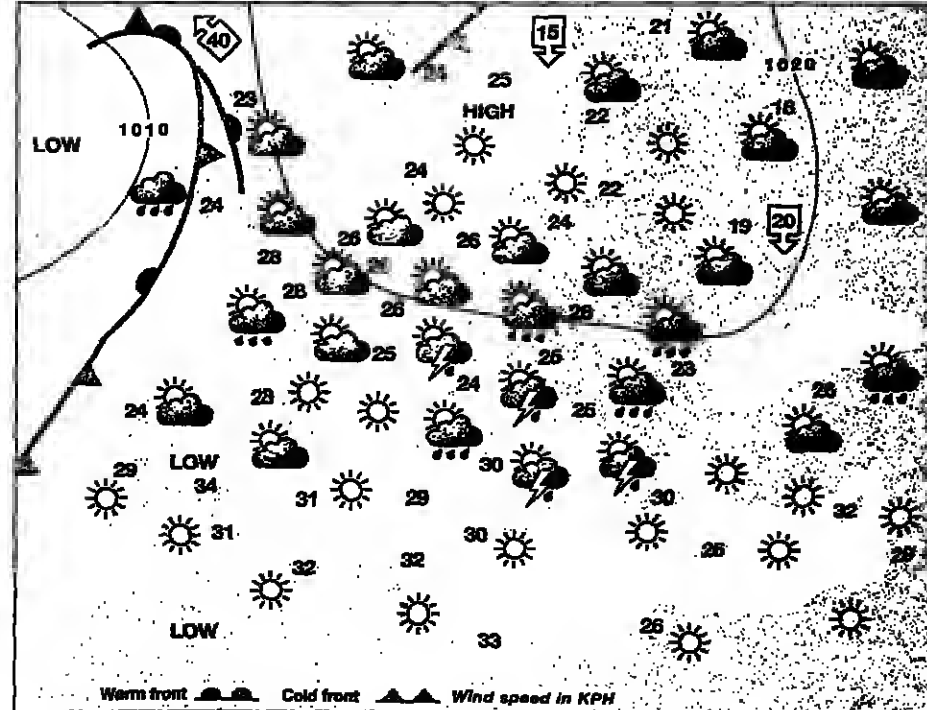
on inflation in spite of fears that the Bundesbank might this week push interest rates higher.

The economics minister said Germany had failed to cut unemployment because economic growth since the 1993 recession had averaged only a little over 2 per cent a year. Meanwhile, wage growth had exceeded productivity growth in the early 1990s, intensifying rationalisation by German companies. In addition, prospects for recovery in eastern Germany had been "generally overestimated".

### Europe today

Northern Scandinavia will have sun and showers but southern areas should be fine with lengthy sunny spells. Eastern Europe will remain cool but generally dry with sunny periods. The Low Countries, Germany and France should be warm and mainly sunny although isolated afternoon showers could spring up over north-western France and in the Alps where they will be more frequent and sometimes thundery. The Mediterranean will continue fine, hot and sunny in most places but Italy and the Balkans will have thundery showers.

Five-day forecast  
Scattered thundery showers will gradually clear from the Alps, Italy and the Balkans and move towards Greece and Turkey. Western Scandinavia will become cooler and cloudier with a mix of sun and showers. The rest of Europe and the Mediterranean will continue fine and mainly sunny.



Maximum	Minimum	Forecast
Abu Dhabi	Fair 31	Cloudy 23
Accra	Fair 30	Cloudy 23
Algiers	Fair 27	Cloudy 23
Amsterdam	Sun 26	Cloudy 23
Athens	Fair 30	Cloudy 23
Atlanta	Thunder 35	Cloudy 23
B. Aires	Fair 27	Cloudy 23
B. Ham	Fair 27	Cloudy 23
Bangkok	Thunder 34	Cloudy 23
Barcelona	Sun 27	Cloudy 23

Maximum	Minimum	Forecast
Cardiff	Thunder 31	Cloudy 23
Casablanca	Sun 27	Cloudy 23
Chicago	Fair 26	Cloudy 23
Cologne	Sun 26	Cloudy 23
Dallas	Thunder 32	Cloudy 23
Dubai	Sun 26	Cloudy 23
Dubrovnik	Sun 26	Cloudy 23
Edinburgh	Thunder 31	Cloudy 23

Maximum	Minimum	Forecast
Faro	Sun 28	Cloudy 23
Frankfurt	Sun 27	Cloudy 23
Glasgow	Fair 26	Cloudy 23
Hamburg	Sun 26	Cloudy 23
Helsinki	Fair 26	Cloudy 23
Hong Kong	Fair 26	Cloudy 23
Honolulu	Sun 26	Cloudy 23
Istanbul	Fair 26	Cloudy 23
Jakarta	Fair 26	Cloudy 23
Jersey	Fair 26	Cloudy 23
Karachi	Fair 26	Cloudy 23
Kuwait	Fair 26	Cloudy 23
L. Angeles	Fair 26	Cloudy 23
Las Palmas	Fair 26	Cloudy 23
Lima	Cloudy 23	Cloudy 23
Lisbon	Sun 28	Cloudy 23
London	Fair 26	Cloudy 23
Luxembourg	Fair 26	Cloudy 23
Lyon	Fair 26	Cloudy 23
Madrid	Sun 28	Cloudy 23

Maximum	Minimum	Forecast
Manila	Fair 26	Cloudy 23
Medford City	Thunder 34	Cloudy 23
Miami	Fair 26	Cloudy 23
Milan	Fair 26	Cloudy 23
Montreal	Fair 26	Cloudy 23
Moscow	Fair 26	Cloudy 23
Munich	Fair 26	Cloudy 23
Nairobi	Fair 26	Cloudy 23
Naples	Fair 26	Cloudy 23
Nassau	Fair 26	Cloudy 23
New York	Fair 26	Cloudy 23
Nice	Cloudy 23	Cloudy 23
Nizhny	Sun 28	Cloudy 23
Oahu	Fair 26	Cloudy 23
Oslo	Fair 26	Cloudy 23
Paris	Fair 26	Cloudy 23
Perth	Fair 26	Cloudy 23
Prague	Sun 28	Cloudy 23
Rangoon	Sun 31	Cloudy 23
Reykjavik	Sun 31	Cloudy 23
Rio	Sun 31	Cloudy 23
Rome	Sun 31	Cloudy 23
S. Francisco	Sun 31	Cloudy 23
Seoul	Sun 31	Cloudy 23
Singapore	Fair 26	Cloudy 23
Stockholm	Fair 26	Cloudy 23
Suzhou	Fair 26	Cloudy 23
Sydney	Fair 26	Cloudy 23
Taipei	Fair 26	Cloudy 23
Tel Aviv	Fair 26	Cloudy 23
Tokyo	Fair 26	Cloudy 23
Toronto	Fair 26	Cloudy 23
Vancouver	Fair 26	Cloudy 23
Venice	Fair 26	Cloudy 23
Vienna	Fair 26	Cloudy 23
Warsaw	Fair 26	Cloudy 23
Washington	Fair 26	Cloudy 23
Wellington	Fair 26	Cloudy 23
Winnipeg	Fair 26	Cloudy 23
Zurich	Fair 26	Cloudy 23

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## COMPANIES AND FINANCE: ASIA-PACIFIC

## Lacklustre debut for shares of KUB

By James Kyng in Kuala Lumpur

Shares of KUB Malaysia, a Malaysian conglomerate with impeccable political connections, rose on their debut on the Kuala Lumpur Stock Exchange yesterday despite a 3.3 per cent decline in the wider market which sent the main index to a 32-month low.

However, KUB's performance was lacklustre when set against the fact that the share prices of many Malaysian companies rou-

tinely climb several fold on listing. KUB closed up 28 Malaysian cents, or 15.6 per cent, at M\$2.08 from its offer price of M\$1.80. It had hit a high of M\$3 during hectic trading. At M\$2.08 per share, the company was valued at M\$1.04bn (US\$373m).

The closing price was significantly below the M\$3.50 to M\$4 which Hassan Harun, the company's chairman, had hoped for.

KUB was formerly the main business co-operative under the United

Malays National Organisation (UMNO), the dominant political party in Malaysia's ruling Barisan Nasional coalition.

It boasts many senior politicians among its 124,000 members but lacks a clear business focus. The company has scores of subsidiaries playing trades as diverse as oil and gas-processing to banking, but many of these have been dormant for years.

Mr Hassan, the company's chairman and himself a former senior

UMNO politician, is expected to embark upon a thorough restructuring programme. The main value in the company is a minority 30 per cent stake in Sime Bank, the nation's fifth-largest.

Mr Hassan did not rule out a possibility that KUB may at some stage sell the stake, which contributes as much as 70 per cent of net profit.

The proceeds from such a sale - which some analysts estimate could total M\$1bn - could be used

to fund acquisitions and find a clearer focus for the conglomerate. KUB is expected to rely heavily on its political contacts to help win it lucrative infrastructure and other projects. Mr Hassan has signalled the company's determination to be involved in the multimedia super corridor, Malaysia's most ambitious infrastructure project which envisages building a "silicon valley" from a green-field site near Kuala Lumpur. There are also plans for a petrochemical venture.

## The politics of business, Malay-style

A company's connections used to guarantee its success, but KUB may find this is changing

In a country where good political connections are often regarded as the secret of corporate success, a company which counts most members of the dominant political party as its shareholders might be considered assured of a bright future.

It says much, therefore, about the general sense of caution which is descending upon Malaysia that the listing yesterday of KUB Malaysia was a somewhat lacklustre affair.

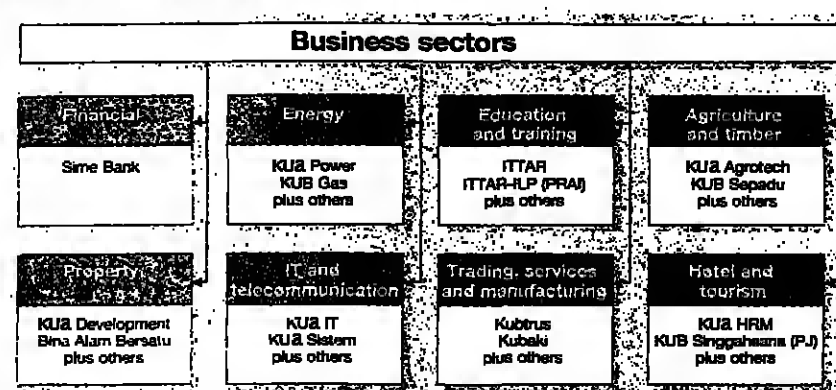
There can be few, if any, commercial organisations in the country with connections more impeccable than those of KUB.

It was founded in 1977 as the only co-operative for the United Malays National Organisation (UMNO), the dominant party in the ruling Barisan Nasional coalition. Dr Mahathir Mohamad, prime minister, and most of the cabinet number among its shareholders, KUB executives say.

Other companies with a similar pedigree have been showered with government benefices. Renong, the country's leading infrastructure company, had little but friends in high places when it began a startling transformation in 1990.

Its contacts helped it win many plum contracts and it is now one of the largest companies on the Kuala

## Entering the charmed circle



Lumpur Stock Exchange, with 12 listed subsidiaries.

KUB, executives say, was being groomed for similar pre-eminence. But with many economists predicting that Malaysia's economy may slow abruptly late this year or in 1998, its involvement in the government's large-scale infrastructure projects is beginning to be seen more as a liability than an asset.

Such talk, however, does not deter Hassan Harun, KUB chairman and an ebullient force behind the company's recovery from insolvency in 1991.

KUB's path to listing bore many of the hallmarks of how several businesses have been turned round during

the past nine years of economic growth at above 8 per cent.

Mr Hassan calls the method "paper shuffling". The first move was to rid KUB of its considerable debts.

Relying on the surging stock market, Mr Hassan made an offer under which any co-operative shareholder who subscribed to buy more than 1,000 shares in KUB would get 2,000 shares free in Damansara Realty, a listed property company, to which the co-operative had ties.

"I never knew that Malaysia had so much money. They just walked into my office by the hundreds. They put down M\$10,000, M\$5,000,

They were queuing," Mr Hassan says of the scheme.

With the company's listing, he gains a chance to enter an inner circle of businessmen with regular access to Dr Mahathir and other top politicians, such as Daim Zainuddin, the prime minister's economic adviser.

"I was first a politician," said Mr Hassan. "From 1991 until last year, I was a member of [UMNO's] supreme council. I was chosen by the prime minister as one of his appointed members of the council."

It is not surprising that Mr Hassan's business strategy dovetails almost seamlessly with Dr Mahathir's ambi-

tions for nation building. First, there is the multimedia super corridor, a vast project that envisages the creation of a "virtual valley" near Kuala Lumpur.

Mr Hassan says that some of the proceeds of yesterday's listing will go toward the creation of a "virtual university" in the corridor, in which students learn through accessing materials through computers.

"The lectures will be digitised and multimedia. If you need the answers you can just press a key," he says.

He adds that KUB is likely to become involved with some of the construction of Putrajaya, a M\$20bn (US\$7.2bn) administrative

capital taking shape within the corridor south of Kuala Lumpur.

Industry analysts say that just a few months ago, involvement in such a project would have been seen as highly attractive by portfolio investors. But as the stock market has lost M\$180bn in value since the start of this year, people are now preoccupied by predictions of the difficulties of raising equity finance for infrastructure projects and a property glut next year.

Other plans include a petrochemicals venture in the north-eastern state of Kelantan, where Mr Hassan was born. But the M\$20m project is not scheduled to start its construction phase until 2000 and Mr Hassan acknowledges that there could be problems in acquiring land in a state controlled by PAS, an Islamic opposition party.

The only jewel in KUB's crown is Sime Bank, the nation's fifth largest, in which the company has a 30 per cent stake but no management say.

"It is difficult to see at this stage where KUB will find a lucrative, recession-proof business to boost its bottom line," says one analyst in Kuala Lumpur. "Let's hope that the government will find it one."

James Kyng

## ASIA-PACIFIC NEWS DIGEST

## Growth slows at Vietnam Airlines

Vietnam Airlines, the state-owned flag carrier, yesterday blamed slowing foreign investment and tourism in Vietnam for sharply lower growth in passenger traffic in the first seven months of this year.

Vietnam Investment Review, a semi-official publication, reported that the carrier's traffic grew 7 per cent to the end of July, compared with more than 35 per cent annually since 1993. Last year the airline carried 2.6m passengers, up from 2.2m in 1995 and 1.67m in 1994. The airline was quoted as saying that this year's target of 3m was unattainable, even with the influx of visitors expected for a summit of French-speaking nations which Hanoi is hosting in November.

The figures are a blow to the airline's plans for rapid expansion. Vietnam Airlines has recently been acquiring extra aircraft, mostly on a lease basis, in an attempt to expand its routes in south-east Asia.

Vietnam Airlines is seen by bankers as one of the communist-run country's best-managed state companies, likely to be among the first to list on an eventual stock exchange.

Jeremy Grant, Hanoi

## SINGAPORE

## Keppel, PSA in joint development

The Port of Singapore Authority and Keppel, the Singaporean conglomerate, will jointly develop sites totalling 53.3 hectares in western Singapore.

The sites to be developed comprise 32 ha of prime waterfront land - including Pulau Keppel, which belongs to Keppel - and 20.3 ha of mixed-use development located at the Maritime Square, PSA and Keppel said. Maritime Square, which encompasses the World Trade Centre, Cable Car Towers, Singapore Cruise Centre, Expo Halls and carparks, will become a hub for maritime business and leisure activities. Keppel has obtained outline planning approval to develop its site into a waterfront condominium with marina facilities and an office park.

When completed, Keppel's project will yield a total floor area of about 435,000 square metres. Reuters, Singapore

## PHILIPPINES

## Low-cost units lift C&amp;P Homes

C&P Homes, the Philippines' largest home-builder, said yesterday it lifted first-half profits 13 per cent year-on-year to 1.58bn pesos (\$51m) as a result of strong demand for its low-cost units.

Manuel Villar, chairman, said that although certain areas in the property market might have been damaged by talk of oversupply - particularly in the high-end condominium market - there was continued growth in more affordable housing, on which the group focuses. The number of units sold in the first half rose slightly, from 11,555 to 12,044. Sales increased 8 per cent to 5bn pesos. Expenses rose 3.8 per cent to 624m pesos.

Shares in the group closed down 50 centavos at 8.80 pesos yesterday as the Philippine Stock Exchange took another tumble amid continued uncertainty over the peso. Justin Marozzi, Manila

## CONSTRUCTION

## Fujita revamp drawn up

Fujita, the Japanese construction company, said it had drawn up a restructuring plan covering the period to March 31, 2000, and that Sakura Bank, its leading creditor bank, had said it would accept the plan, the company added.

Fujita said that other banks, including Tokai Bank, were also likely to accept the restructuring programme. "Sakura Bank said it would accept our plan and Tokai said that it was considering accepting it. They will give us support so that we will not have difficulties raising funds for our operations," it said.

Under the restructuring, Fujita will attempt to cut its debts by Y157.4bn to Y480bn (\$4.1bn) by the end of March 2000, the company said. It will also cut its workforce by 560 to 4,900 through attrition, a freeze on recruitment and an early retirement programme. In addition, the group will try to improve profit margins in its construction projects from 8.9 per cent in 1996-97 to 10.1 per cent in 1999-2000.

Fujita aims to post current profits of Y10.4bn at parent company level for 1999-2000 on sales of Y744bn. This compares with a profit last year of Y8.16bn on sales of Y709.5bn. Reuters, Tokyo

## Weaker yen helps Pioneer

By Gwen Robinson in Tokyo

A weaker yen and a restructuring helped Pioneer Electronic, the Japanese maker of audio equipment, report a jump in profits for the April-June quarter.

Consolidated pre-tax profit nearly tripled to Y3.35bn (\$30m) in the period - the first quarter of Pioneer's business year - against a pre-tax profit of Y766m a year earlier.

The improvement more than offset the negative impact of Japan's April 1 sales-tax increase.

The group's total sales edged up 0.6 per cent to Y129.81bn. Overseas sales

grew nearly 8 per cent to Y85.9bn, helped by the yen's decline against the dollar and robust sales of digital direct-broadcast satellite decoders, which were launched on the European market during the quarter.

However, the tax increase and a slump in demand for laser-disc products and commercial-use karaoke video systems hit domestic sales, which fell 11 per cent to Y43.8bn.

Although car electronics products enjoyed brisk demand in overseas markets, particularly Europe, Asia and Latin America, domestic sales were weak. Sales of video and music software,

meanwhile, plunged more than 42 per cent.

Analysts said Pioneer's turnaround from a weak first quarter last year was largely due to the company's restructuring and its recent slowdown in capital investment.

After-tax profits rose 28 per cent to Y1bn. For the full year, Pioneer said it was confident of meeting its target of Y8bn-Y9bn in consolidated after-tax earnings.

The company is cutting back some mainstay lines, such as laser-disc products, and expects strong demand for DVD-related products, including laser-disc-compatible DVD players.

## Napocor warns on profits

By Justin Marozzi in Manila

National Power Corporation (Napocor), the Philippines' largest state-owned utility which is awaiting privatisation, warned of a 40 per cent drop in net income to 3.35bn pesos (\$12.4m) this year.

The group said profits would fall from last year's 5.54bn pesos because of a 30 per cent rise in the cost of servicing its debt to 25.7bn pesos.

The company, which is due to be floated this year, is set to be dismantled into a single transmission company and seven generating companies, although the exact date of its privatisation depends

on the progress of legislation in Congress.

Napocor said its total foreign debt was about \$5.3bn at the end of 1996 - although that has risen in peso terms following recent turbulence on foreign exchange markets. Yesterday, the peso hit a record low against the US dollar, breaching 30 pesos to the dollar.

Napocor said that although net utility revenues were forecast to rise 26 per cent to 80.3bn pesos, operating expenses would also climb, by 36 per cent to 68.4bn pesos.

It said it would need to increase rates by an average 30.6 centavos per kilowatt-

hour - compared with 23.67 centavos last year - to take into account the increased costs arising from fuel prices and foreign exchange adjustments.

Analysts said investor appetite for Napocor's offering would depend on how the company - which is being advised by N.M. Rothschild and Merrill Lynch - groups its assets.

"If they put the profitable and unprofitable ones together, there might be broad interest; otherwise you will see some assets purchased and others passed over," one analyst said. "The problem is, it's all very sketchy at the moment."

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Period	Pool	Pool	Pool	15-min	15-min
	price	price	price	price	price
0000	15.57	10.11	10.12	0.00	0.00
0100	15.37	10.02	10.02	0.00	0.00
0200	15.37	10.02	10.02	0.00	0.00
0300	15.37	10.02	10.02	0.00	0.00
0400	15.37	10.02	10.02	0.00	0.00
0500	15.37	10.02	10.02	0.00	0.00
0600	15.37	10.02	10.02	0.00	0.00
0700	15.37	10.02	10.02	0.00	0.00
0800	15.37	10.02	10.02	0.00	0.00
0900	15.37	10.02	10.02	0.00	0.00
1000	15.37	10.02	10.02	0.00	0.00
1100	15.37	10.02	10.02	0.00	0.00
1200	15.37	10.02	10.02	0.00	0.00
1300	15.37	10.02	10.02	0.00	0.00
1400	15.37	10.02	10.02	0.00	0.00
1500	15.37	10.02	10.02	0.00	0.00
1600	15.37	10.02	10.02	0.00	0.00
1700	15.37	10.02	10.02	0.00	0.00
1800	15.37	10.02	10.02	0.00	0.00
1900	15.37	10.02	10.02	0.00	0.00
2000	15.37	10.02	10.02	0.00	0.00
2100	15.37	10.02	10.02	0.00	0.00
2200	15.37	10.02	10.02	0.00	0.00
2300	15.37	10.02	10.02	0.00	0.00
2400	15.37	10.02	10.02	0.00	0.00

**BRADFORD & BINGLEY**

£100,000,000

Collateral Floating Rate Notes Due 2003

In accordance with the terms and conditions of the Notes, the interest rate for the period 18th August, 1997 to 18th February, 1998 has been fixed at 7.375% per annum. The gross interest amount payable on 18th February, 1998 will be £37.16 per £1,000 nominal.

Agent Bank: **ROYAL BANK OF CANADA**

US \$100,000,000

The Industrial Finance Corporation of India Limited

Collateral Floating Rate Notes Due 2002

In accordance with the provisions of the Notes, the interest rate for the period 18th August, 1997 to 18th February, 1998 has been fixed at 7.375% per annum. The gross interest amount payable on 18th February, 1998 will be £37.16 per £1,000 nominal.

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**Nordbanken**

Interim Report: Six months ended June 30, 1997

- High return on equity: 26%
- Operating profit: SEK 3,016 M
- Continuing pressure on interest margins
- Net commissions income increased by 20%
- Costs rose 3%
- Lower loan losses
- Good growth in mortgage loans and mutual funds

**Nordbanken in brief**

Nordbanken is one of Sweden's largest banking groups, offering a broad range of banking and financial services to private individuals, small and medium-sized companies, the public sector and a selection of major Swedish companies.

As of June 30, 1997, Nordbanken had total assets of SEK 385 billion, lending amounting to SEK 270 billion and deposits of SEK 152 billion.

Nordbanken's assets and operating income are derived almost entirely from business in Sweden. The Bank's customer base comprises more than 3.5 million private individuals, approximately 150,000 small and medium-sized companies and more than 50,000 non-governmental organizations.

The Bank markets its full range of products through a nationwide network consisting of nearly 300 branch offices. In addition, customers can conduct many of their Nordbanken transactions at 1,800 post offices in Sweden, or the Nordbanken Direkt, the country's largest telephone bank with personal service and nearly 300,000 customers.

The complete Interim Report can be obtained from Nordbanken, Investor Relations, SE-105 71 Stockholm, Sweden. Also by fax (+46 8) 614 8710 or by tel (+46 8) 614 7851. The Interim Report is available on www.nbs.se

**NORDBANKEN**

**Capital One Master Trust**

U.S. \$300,000,000

Collateral Floating Rate Notes Due August 2008

For the interest period 15th August, 1997 to 15th September, 1997 the Certificates will carry an interest rate of 5.7634% per annum with an amount of U.S. \$49.62 payable per U.S. \$100,000 denomination and U.S. \$496.20 per U.S. \$1,000,000 denomination, payable on 15th September, 1997.

U.S. Bank of Switzerland

London Branch Agent Bank

15th August, 1997

**CITICORP**

U.S. \$250,000,000

Subordinated Floating Rate Notes Due August 2008

Notices are hereby given that the rate of interest for the period August 19, 1997 to November 19, 1997 has been fixed at 5.613025% and that the interest payable on the relevant interest payment date November 19, 1997, against Coupon No. 18 will be US\$71.73 in respect of US\$100,000 nominal of the Notes and US\$7,173 in respect of US\$1,000,000 nominal of the Notes.

August 19, 1997, London

By Citicorp, N.A. Corporate Agency and Trust, Agent Bank

**CITIBANK**

مركز التمويل



COMPANIES AND FINANCE: EUROPE

# Fresenius bolstered by acquisitions

By Sarah Althaus  
in Frankfurt

Acquisitions helped Fresenius, the rapidly expanding German health products company, to a surge in first-half net profits which masked problems at its new medical dialysis subsidiary.

Net profits more than doubled from DM58m in the first six months of last year to DM116m (€64m).

The group attributed the increase to acquisitions, strong gains in its core business and the

inclusion of Fresenius Medical Care, formed last year after it bought National Medical Care, the dialysis arm of W.R. Grace of the US, in a multi-billion dollar deal.

Group figures were at the upper end of expectations, although analysts were disappointed with FMC, which registered net profits of \$54.6m, up 46 per cent from \$37.5m last year on a pro forma basis, on sales of \$1.58bn, compared with \$1.51bn. Group net profits were slightly up on our forecasts... with the stronger dollar and particularly good pharmaceuti-

cal sales providing an extra impetus," said Wolfgang Sawatzki, analyst at WestLB Research. "FMC, on the other hand, was a letdown: the integration is obviously not proceeding as smoothly as Fresenius had anticipated."

Christiane Nestroy, analyst at Veritasbank Research, said she had expected interim net profits at FMC of \$80m and that the unit would therefore "unlikely reach our full-year earnings per share forecast of \$2.01, which was already at the bottom end of market forecasts."

However, Gerd Krick, Fresenius chairman, was more upbeat. "FMC's performance in the first two quarters shows we are on the right track... as a result of our aggressive acquisition strategy, our dialysis services business is growing faster than the overall market," he said.

At the pre-tax level, group profits more than tripled from DM38m to DM337m, on sales of DM3.50bn compared with DM1.35bn. Excluding acquisitions and FMC, sales were up 12 per cent.

"Our expansion in international

markets and our leading role in the concentration process taking place in the dialysis services sector will secure our long-term growth," Mr Krick said.

He noted that only 13 per cent of total turnover in the first half came from Germany.

At group level, pharmaceutical sales rose 32 per cent to DM537m, bolstered by the group's entry into the Italian infusion solutions market with the acquisition of Sifra, an infusion and dialysis company.

Investments climbed from DM93m to DM267m.

EUROPEAN NEWS DIGEST

## Bally revamp 'needs funds'

Ernst Thomke, a well-known company doctor who was brought in to turn around Bally in September 1996, says he needs an extra SF150m (\$100m) to revamp Bally.

He is known to want to speed up its recovery by floating a minority of its shares on the stock market. However, at the end of July the group announced there were no plans to float Bally, which led to a well-publicised boardroom row culminating in Mr Thomke's threat to resign.

Oerlikon-Bührle said yesterday's meeting of the Bally board had been purely a presentational affair and no decisions had been taken.

The group, which publishes its half-year results next week, refused to say when it would disclose its new strategy for Bally. However, it confirmed that Mr Thomke had not tendered his resignation.

Observer, Page 11 William Hall, Zurich

BROADCASTING

## Telefónica chief joins TV group

Spain's Antena 3 television station yesterday appointed José Mas Miller, Telefónica secretary-general, as its new chairman. He will be joined on the board by three other directors from the Spanish telecoms group.

The appointments mean Telefónica has in effect assumed control of the private television channel, in defiance of the European Commission.

The Commission warned the Spanish telecoms operator last week to get EU approval before going ahead with its purchase of Antena 3.

The acquisition had been challenged by CanalSatellite, a Spanish digital television platform backed by France's Canal Plus, in the latest round of the battle for control of Spain's fledgling pay-TV market.

Telefónica argues its purchase of 25 per cent of Antena 3 is a domestic rather than European competition issue. The telecoms group said it had informed Spain's competition watchdog of its plans. Antena 3 shareholders approved Telefónica's acquisition at an extraordinary meeting yesterday.

Reuters, Madrid

TELECOM ITALIA

## Indirect stake in 'yellow pages'

Telecom Italia has reached a deal with Banca Commerciale Italiana to take an indirect stake in Seat, the publishing business spun off by the former Stet telecoms holding group.

A group led by BCI announced last month it would pay L1,500bn for 61.7 per cent of Seat ordinary shares currently owned by the Italian Treasury.

Telecom Italia, which is keen to take a stake in the publisher of Italy's "yellow pages" directory, has signed a deal with BCI to buy 20 per cent of the holding company which has been especially created to purchase the Seat stock. The holding, Otto, is backed by eight investors, including BCI, Telecom Italia, and US bank Citicorp. Otto will have share capital of L1,000bn, with Telecom Italia providing up to L200bn.

Telecom Italia, which is due to be privatised in October, will also provide other guarantees to allow the Seat acquisition to go ahead.

Reuters, Rome

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

# A quiet revolution in Russian banking

Institutions are acting less like trading houses and more like recognisable financial intermediaries

Scarcely a day passes in Russia without a scandal erupting around the country's banks. They are accused of buying state assets on the cheap or mis-handling budget funds, manipulating government officials or corrupting the media.

But amid the noise and fury, a quieter and potentially far more significant revolution is under way: some of Russia's 1,700 free-wheeling banks are mutating into recognisable financial intermediaries. The growing trend is to raise longer term capital from international investors and domestic depositors, and pump it into the local economy.

Sergei Aleksashenko, deputy chairman of the central bank, says the successful stabilisation of the economy signals the end of fast profits for Russia's banks; either they must adapt or die. "Many Russian banks lived and live like financial trading companies, making money speculating on the currency and government debt markets. But profits from these markets have sharply fallen away," he says.

"Banks do not find their place in the normal credit business, then they will have a very sad fate."

Already, Mr Aleksashenko's predictions are coming true. Like other post-communist transition economies, Russia is experiencing a

banking crisis - albeit in slow-motion. Over the past two years, 450 banks have collapsed, including some large regional banks, such as Tveruniversitybank, which ranked as the 17th biggest. Local bankers expect a further wave of failures and mergers as the sprawling industry consolidates.

But a small group of powerful banks, including Oneximbank, SBS-Agro, and Alfa Bank, which have jointly raised \$650m from eurobond issues over the past few weeks with the aim of making long-term industrial loans, are pointing the way to the industry's future.

"The time has come when banks must begin in earnest to do what banks everywhere are ordained to do - which is to lend money," wrote Tanya Azarcbs, an analyst at Standard & Poor's, the international credit rating agency, in a recent report on the sector.

Oneximbank, which has recently attracted publicity for controversially buying government stakes in the Svyazinvest telecommunications company and the Norilsk Nickel metals group, is planning to invest long-term capital in developing its related industrial assets. In effect, Oneximbank is emerging as the treasury for the associated Interros financial industrial group, which controls 24 industrial companies with combined sales of \$10bn.

Vladimir Potanin, head of

Oneximbank, says the bank's chief aims will be to strengthen its capital base and broaden its branch network to service its diverse industrial assets. With access to capital from abroad, Oneximbank will be able to lengthen the maturity of its loans to up to three years.

At the current stage of Russia's economic development, Mr Potanin argues it is far safer to lend money to enterprises which the bank controls. Poor legal and accounting standards make unsecured third-party loans a risky business. "We want to be sure that the money we invest will be properly managed," he says.

But other banks are pursuing different strategies, arguing it is both dangerous and economically inefficient to be over-reliant on a captive client base. For example, Alfa Bank, founded to support the Alfa Group of companies, is busy disentangling itself from most of its related group businesses to strengthen its credibility as an independent corporate bank.

Mikhail Fridman, head of Alfa Group, says that being a pocket bank of a big financial-industrial group leads to excessive concentration of assets and risks, and leaves enormous opportunities begging elsewhere.

"We understand that to develop as a nationwide

bank, a universal bank, we need to have more transparency for investors. We are therefore trying to develop the bank as an independent entity with an independent strategy. Now the relationship between the bank and the group is absolutely commercial," he says.

At present, Russia appears considerably underbanked - especially outside Moscow. The average bank has only two branches. As of mid-1996, 81 per cent of all loans extended by Russian banks were for less than one year. Total banking assets at the end of 1996 amounted to just \$132bn, or 34 per cent of gross domestic product. In the Czech Republic, for example, the comparable figure was 155 per cent.

SBS-Agro, which was formed last year from the merger of the Stolichny Savings Bank and Agroprombank, the state agricultural bank, believes its future lies in retail banking. At the moment this sector is dominated by Sberbank, the state savings bank, which boasts 34,000 branches and holds 70 per cent of all retail deposits.

But Andrei Lykov, first deputy chairman, argues the vast, unwieldy Sberbank is vulnerable to competition. He says SBS-Agro now has 1,400 branches covering 62 of Russia's 89 regions, and expects to win 10 per cent of the retail deposit market by the end of the year.

The bank is offering a



Mikhail Fridman, chairman of Alfa Bank Group The European

growing range of consumer products, such as credit cards, savings accounts, and insurance services to attract retail depositors. "Our population may have between \$20bn to \$40bn of money under their mattresses and if we can attract even part of that money, we will have a very stable and independent funding base," he says.

In contrast to Oneximbank and Alfa, SBS-Agro is con-

centrating on loans to the small to medium-sized business sector, where competition is less intense and the demand for efficient banking services is all the greater.

"One year in Russia is like 10 years abroad," Mr Lykov says. "The situation changes very fast. But it is clear that bankers should now specialise in banking."

John Thornhill

# Volkswagen interims surge 73% on exports

By Graham Bowley  
in Frankfurt

Volkswagen shares rose strongly yesterday after the German carmaker reported a 73 per cent surge in net profits, to DM495m (\$271m), for the first half of 1997.

Buoyant foreign demand, especially in Europe, lifted sales at the Volkswagen Group - which includes the VW, Audi, Skoda and Seat marques - by 12 per cent to DM56.6bn.

The results will reinforce investor confidence in the strategy being followed by Ferdinand Piëch, chairman. VW reiterated its upbeat forecast for the whole of 1997, predicting that earnings would rise for the fourth consecutive year.

In 1996, VW reported record group net profit of DM678m and sales of about DM100.1bn.

VW is the latest German carmaker to report a strong performance in the first half of this year - helped by demand outside Germany and the weakness of the D-Mark against other currencies, especially the US dollar. BMW and Daimler-Benz both reported big rises in net profits in the first six months.

The figures were in line with analysts' expectations, but they helped the carmaker weather the general decline in German shares yesterday.

Volkswagen shares, which have been among the best performing stocks in the Dax index this year, rose DM30 to DM1.283, despite the sharply weaker German market which at one stage was down about 150 points. At the close of electronic trad-



Ferdinand Piëch: predicts earnings rise for fourth year

ing, the Dax index of German blue-chip shares had recovered to 4,080.55, up 2.96 points.

Skoda - the group's Czech division - reported the strongest increase in deliveries of new cars, up 27.3 per cent to 161,886.

Deliveries in the Audi luxury car division also rose strongly, up 12.8 per cent to 276,073. Total deliveries rose 9.9 per cent to 2.2m cars.

However, the carmaker reported difficulties in the German market because of depressed consumer demand.

German sales rose only 1.2 per cent to DM18.34bn. In contrast, foreign sales were 18.5 per cent higher at DM37.2bn.

Sales in the VW car divi-

sion increased to DM27bn, up 4.8 per cent. Net profit was 20 per cent higher at DM276m.

Analysts said domestic demand for VW cars may have been held back as potential buyers waited for the introduction of the new Golf model, expected at the Frankfurt motor show next month. Analysts have warned that the group could face substantial launch costs for the new model.

VW said deliveries to China of VW and Audi cars rose 35.2 per cent to 143,116.

Investment in the first six months of 1997 rose 18.8 per cent to DM3.4bn, most of which went to the VW brand, Audi and VW's Mexican and Brazilian operations.

# Julius Baer posts 62% rise halfway

By William Hall in Zurich

Julius Baer, the biggest of the Swiss private banks, reported a 62 per cent increase in first-half net income after minorities to SF107.5m (\$72m), helped by a SF150m jump in profits on securities trading as well as dealing in foreign exchange and precious metals.

The 63 per cent surge in trading income to SF129m overshadowed a 45 per cent rise in the group's net fee and commission income to SF216.1m.

The group, which specialises in managing funds for private clients, aims to reduce its dependence on volatile trading profits by building up its fund management business - a more stable source of revenues.

The group, which earned just SF39m from trading in the first half of 1996, said 55 per cent of its trading income was client-related. Results from trading in securities rose 83 per cent, to SF777m, and revenues from precious metal and foreign exchange trading grew by 41 per cent to SF52m.

Baer is the last of the big Swiss private banks to report results. Its profits rise was better than the 48.4 per cent increase, to SF52.1m, reported by the Vontobel Group.

However, its performance was not as strong as Liechtenstein Global Trust's, where first-half net profits rose by 81 per cent to SF113.6m. Baer's assets under management rose by 39 per cent to SF78.3bn.

This announcement appears as a matter of record only.



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July 1997

CB FUND INTERNATIONAL  
Société d'investissement à Capital Variable  
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NOTICE OF DIVIDEND PAYMENT

The General Meeting of Shareholders of CB FUND INTERNATIONAL has decided to pay a dividend of USD 1.05 per share for the financial year ending May 31, 1997 to each share held on August 18, 1997, the shares being quoted ex-dividend on August 19, 1997.

This payment will be made on and after August 26, 1997 against delivery of coupon No 13 to the Banque Paribas Luxembourg, 10A, Boulevard Royal, Luxembourg.

Dividend cheques will be sent to registered shareholders.

Dividends not claimed within 5 years of the payment date will lapse and revert to the Fund.

Luxembourg, 18th August, 1997 For the Board of Directors

NOTICE OF CONVERSION PRICE ADJUSTMENT

To the Holders of  
CHUO RUSSIAN CORPORATION  
JPY2,000,000,000  
Nil Coupon Resettable Convertible  
Bonds due 2000

NOTICE IS HEREBY GIVEN that the current conversion price of JPY810 per share has been reset pursuant to section 5.2 of the Terms and Conditions of the Bonds, effective as of August 25, 1997 to JPY648 per share.

CHUO RUSSIAN CORPORATION  
By: Morgan Guaranty Trust Company of New York  
as Conversion Agent Dated: August 19, 1997



# Southern chief hits at UK utility tax

By Bruce Clark in Atlanta

Southern Company, the Atlanta-based energy concern, has no regrets about buying South Western Electricity (SWE), the UK regional electricity and gas supplier, but will keep its presence in the UK under review, according to A. W. Dahlberg, the US group's president.

Southern, whose purchase of SWE was the first of seven takeovers by US power companies of privatised UK energy groups, has been among the harshest

critics of the Labour government's windfall profit tax on utilities.

Mr Dahlberg said SWE's tax bill, equivalent to \$100m, had wiped out two years of expected earnings and was "frankly disappointing" in view of efforts to improve efficiency and customer service at the UK subsidiary.

Asked if his company, a regional utility which has spent about \$4bn on overseas acquisitions over the last two years, remained committed to the UK market, Mr Dahlberg said: "I think you have to be realistic

and look at the economics of every environment you're in. You make ongoing evaluations of how you operate in a particular market."

"We went to England as a long-term investor, that was our intention and it is our intention now." But he added that in any overseas market, "you have to look constantly at the value that's provided to our shareholders."

He strongly denied allegations in UK media that Southern had taken large sums out of SWE, in the form of an unusually large

dividend, to avoid exposure to the utility tax.

"We paid down some of the debt which we used to buy SWE, and any dividends that went out were used to pay off that debt, not to come back here," Mr Dahlberg said.

The need for continuous scrutiny applied equally to all Southern's global interests, which include Consolidated Electric Power Asia, the Hong Kong-based group, and utilities in Latin America and the Caribbean, he added.

The UK windfall tax, combined with unusually cool

weather in the south-east US, which depressed the use of air conditioning, meant that 1997 results "won't be outstanding". However, Mr Dahlberg expected non-traditional business to start boosting revenues from the end of this year.

New business included participation in the rapidly growing wholesale US energy market, and the completion next year of a power generation plant in the Philippines.

This month Southern joined the trend towards

convergence between the US gas and electricity sectors by announcing a joint venture with Vastar Resources, a Houston company, which aims to be among the top US marketers of gas and power.

Southern, one of the 20 most widely held US stocks, reported earnings last year of \$1.13bn - a 2.2 per cent increase on 1995 - on revenues of \$10.4bn, a 12.8 per cent increase on the previous year.

But in the second quarter of this year, net income tumbled from \$287m to \$215m, or 31 cents a share.

## Texaco in \$1.4bn Monterey merger

By Christopher Parkes in Los Angeles

Texaco is to increase its Californian oil output by almost one-third through a \$1.4bn all-share merger with Monterey Resources, the state's leading independent producer of heavy crude.

Yesterday's agreement underscored Texaco's sharpened focus on exploration and production as it prepares to pool much of its US refining and marketing capacity with Shell Oil.

It could also signal further, similar deals in the region where rapid population growth is expected to bolster demand - and prices - for locally-produced oil.

Monterey last month completed a \$106m acquisition of McFarland Energy and said it might buy more Californian producers if crude prices improved. There have also been reports that Texaco's Canadian subsidiary might be preparing a bid for Elan Energy, a heavy oil producer based in Alberta.

Monterey's stock price jumped 35 per cent to more than \$20 following the news, and by late morning was within a few cents of the offer's valuation of \$21 of Texaco shares for each Monterey unit.

According to unofficial estimates, the acquisition of the Bakersfield-based company will increase Texaco's daily Californian oil output to 180,000 barrels a day - or almost 20 per cent of the state's total.

Monterey's 385m barrels of proven reserves will also provide a substantial boost to its new owner's existing booked resources in the state of 480m barrels.

Most of its properties are located close to Texaco's holdings in the San Joaquin valley, which could help reduce aggregate operating costs which are typically higher than those for lighter grades of oil.

Under the terms of the merger, which is expected to be completed within 90 days, Texaco will also assume Monterey's debts of \$285m.

New challenges, Page 11

## Sprint supports Stones on tour

By Alice Rawsthorn

Sprint, the US telecommunications company, has become the latest recruit to the fast-growing business of rock sponsorship by backing the Rolling Stones' forthcoming *Bridges to Babylon* world tour.

It is understood that Sprint will pay several million dollars to be named as sponsor of the tour, which starts in Chicago on September 23 and moves to Europe next spring.

Sprint, whose chairman William Esrey staged a press conference yesterday with the four Rolling Stones beside Brooklyn Bridge in New York, will also promote the tour by featuring it in its advertising.

The Stones' deal with Sprint comes as companies are stepping up their investment in rock sponsorship.

Traditionally, the only acts able and willing to strike sponsorship deals were established stars with

mainstream appeal - such as the Stones, whose 1994 *Voodoo Lounge* tour was backed by Volkswagen, the German carmaker.

Younger bands, such as U2 and R.E.M., eschewed sponsorship on the grounds that it might imperil their image.

However, the high cost of touring has prompted some acts to reconsider their antipathy towards sponsorship.

U2, which faces a \$60m bill for staging its current *PopMart* tour, may accept sponsorship in future, according to Paul McGuinness, the band's manager.

Similarly, the broadening age base of the music market has made an association with rock and pop attractive to more companies.

British Telecommunications is discussing sponsorship proposals with the Spice Girls for next year, after their present promotional deal with PepsiCo ends.

The BT deal is likely to



Backing vocals: Sprint is the latest to sponsor Mick Jagger and the Stones on tour

include issuing special Spice Girls telephone cards.

Among brewers, Carlsberg sponsored last weekend's Elvis Presley tribute concert in London, featuring Rod

Stewart and Kid Lang, while Tennants backs the annual T in the Park festival in Glasgow each summer.

Meanwhile, Clearasil, the acne cream, is sponsoring the tour this summer by 911, the teen idols, in a deal which includes leaving a free sample of spot cream on the seats at each concert.

## Toys R Us lifted by 'virtual pet' craze

By Richard Tomkins in New York

The international craze for Tamagotchi electronic pets helped Toys R Us, the US toy retailer, produce a big increase in sales and profits for the second quarter.

Sales surged 15 per cent from \$1.7bn to \$2bn as customers crowded into the company's superstores, while net profits were \$367m, or 13 cents a share - 2 cents better than the 11 cents a share predicted by analysts.

In last year's second quarter, Toys R Us reported a net loss of \$7.5m after a charge relating to an arbitration award against the company. Excluding the charge, net earnings were \$27.1m.

Michael Goldstein, chief executive, said: "There's a lot of excitement in our stores right now." Sales at US stores open a year or more rose 4 per cent in the second quarter on a strong performance a year earlier, when the company held clearance sales, he said.

Mr Goldstein attributed the gains to the continued strength of the video game business, which has been boosted by the availability of Nintendo 64 products, as well as strong sales of action figures, plush

toys and outdoor playsets.

He said customer traffic had also been boosted by the craze for Tamagotchi "virtual pets" - egg-shaped electronic toys on a keyring that owners care for by pushing buttons that feed them, stroke them and put them to bed.

Toys R Us also reported "outstanding" sales and improved operating results from its international division.

In Canada and the UK, stores that had been open a year or more posted double-digit sales increases, while similar store gains were also reported in Australia, Spain, France and Japan, the company said.

The overseas sales increases were driven by new marketing programmes, the company said, as well as the continued strength of the video game business and the introduction of "virtual pets" outside Japan.

Toys R Us said it had recently suffered poor results from the US because of tough competition from the big discount store chains such as Wal-Mart Stores.

The company has been remodelling its stores to a "Concept 2000" format to counter its declining market share. It said yesterday that it had almost completed the remodelling of the first 56 stores.

## Compaq, Sun target each other's markets

By Louise Kehoe in San Francisco

Sun Microsystems and Compaq Computer are taking aim at each other's core markets with computer products launched this week.

Sun aims to cast a new light on the market for workgroup servers - computers used to manage office networks of up to about 100 users - currently dominated by Compaq.

Meanwhile, Compaq is out to challenge Sun in the higher performance segment of the server market. Yesterday it launched "fault-tolerant" servers, featuring new technology that enables system administrators to replace system components without interrupting operation of the computer.

Compaq and other personal computer manufacturers have won the lion's share of the workgroup server market over the past few years by offering powerful, low-cost systems based on standard Intel microprocessors and Microsoft's Windows NT operating system.

Now Sun aims to claim its share of this fast-growing segment with aggressively priced systems based on its own combination of proprietary microprocessors and the Unix operating system.

The new Sun systems would offer greater reliability and functionality

than NT servers, said Ed Zander, senior vice-president.

"Our systems will be easier to use and better than NT servers. We are raising the bar for Compaq. We will show them they have to invest [more] in research and development," he said.

While Unix systems have typically sold for about twice the price of an NT server, Sun would price the new systems at just under the "street price" of Compaq's workgroup servers, he said.

However, Compaq dismissed Sun's plans as "a desperation move". At the same time, it said its new "PCI Hot Plug" fault-tolerant technology would be licensed to manufacturers to establish it as an industry standard.

The new technology would enable users to run business-critical applications on low-cost, industry-standard servers, said John Rose, senior vice-president.

"Compaq is focused on extending the power and reliability of standards-based platforms so that customers can use IT to gain business advantages," he added.

Compaq's move toward "fault-tolerant" systems coincides with its acquisition of Tandem Computers, a leader in high-performance fault-tolerant systems.

### AMERICAS NEWS DIGEST

## Monsanto details chemicals spin-off

Monsanto, the St Louis-based chemicals, biotechnology and agricultural products group, will spin off its chemical interests as a separate stock exchange-listed company on September 1. The group said that the new company, with annual sales of about \$3bn, would be known as Solvita, while the ongoing life sciences business - which will take in the group's biotech, herbicide and crop-related interests - would retain the Monsanto name.

Monsanto, whose total sales last year stood at just over \$9bn, added that it expected to announce a "new positioning" for the life sciences company this year, but gave no further details.

Separately, Monsanto said it had received notice that the Justice Department had completed its antitrust review of the proposed \$1.02bn purchase of Holden's Foundation Seeds and two related companies. "Monsanto is proceeding to close the acquisitions," it said.

Nikki Tall, Chicago

### CHEVRON

## Plan to drill off Florida coast

Chevron USA, the oil company, has completed a controversial application to drill for natural gas in federal waters about 25 miles off the north-west coast of Florida, the US Minerals Management Service, an Interior Department agency which regulates oil and gas production in federal waters of Gulf of Mexico, said on Monday.

The plans, expected to spark protests from Florida environmental groups, must be approved by federal and state regulators in a process that could take up to two years, the agency said.

Chevron expects to drill between 12 and 21 wells and produce up to 450m cubic feet of natural gas a day from the prolific Destin Dome formation. The start date is March 1999, said the MMS.

The plans, if approved, would end a long-time moratorium on drilling off the coast of Florida.

Reuters, Houston

### PAGING

## PageNet loses fourth executive

A shake-out at the top of Paging Network, the largest US paging company, continued yesterday with the resignation of Kenneth Sanders, its chief financial officer.

Mr Sanders was the fourth key executive to leave a post at Paging Network in two weeks. The chairman, president and chief executive, and marketing chief all stepped aside on August 4, just before the company named John P. Frazer, former president of Sprint, as president, chairman and chief executive.

Mr Frazer was building his own management team, analysts said. They differed over whether additional management changes were coming at the Dallas company, commonly called PageNet. However, they agreed that Mr Frazer's revamping of management would be positive for the company.

AP-DJ, New York

### EXPLORATION

## Duke arm wins Peru licence

An affiliate of Duke Energy, the US energy group, and its partners have signed with Peru's state energy company to explore for natural gas in block 85 in the Ucayali Basin.

The deal is part of Peru's ongoing sale of exploration and production licences to private companies and the privatisation of its energy sector.

PanEnergy Exploration and Production (Peru), the Duke affiliate, will serve as operator under the licence agreement, which gives the partners the right to explore for gas in 300,000 acres in the western area of the Ucayali Basin near San Alejandro.

Other partners are Buenaventura Ingenieros, a Peruvian mining concern, and Mosbacher Peru, a Peruvian subsidiary of Mosbacher Energy, the US exploration and development company.

Reuters, New York

### ADVERTISING

## Outdoor closes \$1bn acquisition

Outdoor Systems has completed its \$1bn purchase of National Advertising, the outdoor advertising operations of Minnesota Mining and Manufacturing (3M).

Outdoor Systems said it now operated about 230,000 poster, bulletin, transit shelter, subway and mall displays in 96 of the top 100 US advertising markets and seven of the top 10 Canadian markets.

The company also said that in conjunction with this deal, it sold certain markets acquired from SM to Lamar Advertising for \$110m cash.

Separately, Outdoor Systems said it had filed an application to list its common stock on the New York Stock Exchange, where it expected to begin trading in the first week of September.

Reuters, Phoenix

**SOLVAY**  
Société Anonyme  
Rue du Prince Albert 33 - B-1050 Brussels

**SPLIT OF THE SHARES**

The Special Meeting of Shareholders met on 5th June 1997 approved, among other things, a ten-for-one split of the Common Stock of the Company.

It had been announced that this stock split would take place on 1st September 1997. However, in order to comply with regulations adopted by the Société de la Bourse de Valeurs Mobilières de Bruxelles (Brussels Securities Exchange Society), this operation will become effective on 28th August 1997, corresponding to the beginning of a fortnightly account settlement period.

The exchange of old certificates will therefore take place from 28th August, in the proportion of ten new shares, cum-coupons N° 61 to 90 for one old share, cum-coupon N° 60.

The old certificates will be accepted for exchange, free of costs to the holder, at the following institutions:

In Belgium	Général de Banque S.A. Banque Bruxelles Lambert S.A. Kredietbank N.V. Deutsche Bank AG Lazard Frères & Cie SPAFID Banque Générale du Luxembourg S.A. ABN AMRO Bank N.V. J. Henry Schroder Wagg & Co. Ltd.
In Germany	
In France	
In Italy	
In Luxembourg	
In the Netherlands	
In Great Britain	
In Switzerland	Credit Suisse

From 28th August, only the new shares cum-coupons N° 61 to 90 will be quoted on the Brussels Securities Exchange (Continuously Forward Market, Quotation Group N° 70).

The Belgian Banking and Finance Commission authorised a total exemption from the obligation of publishing a prospectus for this operation.

The last annual report and the press release announcing results for the first half of 1997 are available on request at the Investor Relations department, Tel. (32) 2 509 6016 Fax (32) 2 509 7240 or via: <http://www.solvay.com>.

**INTERMARKET MULTICURRENCY FUND**  
SICAV  
Registered Office: 2, Boulevard Royal,  
L-2953 Luxembourg  
R.C. LUXEMBOURG B-4891

Shareholders are hereby convened to the

**ANNUAL GENERAL MEETING**

of shareholders of our company, which will take place at the offices of Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg, extraordinary on August 29, 1997 at 15.00 p.m. for the purpose of considering and voting upon the following agenda:

1. Submission of the Reports of the Board of Directors and of the Auditor;
2. Approval of the Statement of Net Assets and of the Statement of Operations for the year ended as at March 31, 1997; Allocation of the net results;
3. Discharge to the Directors;
4. Statutory Appointments;
5. Miscellaneous.

Shareholders are advised that no quorum is required for the terms of the agenda of the Annual General Meeting and that decisions will be taken by the majority of the votes expressed by the shareholders present or represented at the meeting. In order to attend the meeting the owners of bearer shares have to deposit their shares five clear days before the meeting at the offices of Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg.

**THE BOARD OF DIRECTORS**

**THE EMERGING MARKETS STRATEGIC FUND**  
SICAV  
Registered Office: 69, route d'Esch  
L-1470 Luxembourg  
R.C. LUXEMBOURG B-4892

Shareholders are hereby convened to the

**ANNUAL GENERAL MEETING**

of shareholders of our company, which will take place extraordinary on August 29, 1997 at 11 a.m. at the offices of Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg, for the purpose of considering and voting upon the following agenda:

1. Submission of the Reports of the Board of Directors and of the Auditor;
2. Approval of the Statement of Net Assets and of the Statement of Operations for the year ended as at December 31, 1996;
3. Allocation of the net results;
4. Discharge to the Directors;
5. Statutory Appointments;
6. Miscellaneous.

Shareholders are advised that no quorum is required for the terms of the agenda of the Annual General Meeting and that decisions will be taken by the majority of the votes expressed by the shareholders present or represented at the meeting. In order to attend the meeting the owners of bearer shares have to deposit their shares five clear days before the meeting at the offices of Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg.

**THE BOARD OF DIRECTORS**

**SUN LIFE GLOBAL PORTFOLIO**  
Société d'Investissement à Capital Variable  
Registered Office: 50, Avenue J.F. Kennedy, Luxembourg  
Commercial register: Luxembourg, Section 8 no 25956

**NOTICE OF SECOND ANNUAL GENERAL MEETING**

Shareholders are informed that the first Annual General Meeting of Shareholders of Sun Life Global Portfolio held on 9 July 1997 could not validly deliberate the proposed to pay dividends, those of the sub-fund not having been represented, namely GLOBAL BOND PORTFOLIO, DM BOND PORTFOLIO and UK GROWTH PORTFOLIO.

Notice is therefore hereby given that the adjourned Annual General Meeting will be held at the registered office of the Company, 50, Avenue J.F. Kennedy, Luxembourg on 28 August 1997 at 3.30 p.m. for the following purpose:

To ratify the decisions of the board of directors to pay interim dividends for HAVEN PORTFOLIO, DISTRIBUTION PORTFOLIO, GLOBAL BOND PORTFOLIO, DM BOND PORTFOLIO and UK GROWTH PORTFOLIO.

By Order of the Board of Directors

**NOTE:**

Any resolution of a general meeting of shareholders deciding on dividends to be distributed to the shareholders of any class shall be subject to a two-thirds affirmative vote of the majority of the shareholders of such class present or represented.

There is no minimum quorum necessary of shareholders present or represented at the adjourned meeting.

Each whole share is entitled to one vote. A shareholder may be entitled to meeting. Proxies already sent in respect of the original meeting are valid for the adjourned meeting, therefore any shareholder having already submitted a vote by proxy does not need to submit another.

**HYPOBANK**  
Bayerische Hypothek- und Wechsel-Bank  
Aktiengesellschaft  
US\$150,000,000  
Subordinated Collateral  
Floating Rate Notes 2003

Notice is hereby given that the notes will bear interest at 5.58375% per annum from 19 August 1997 to 19 February 1998. Interest payable on 19 February 1998 will amount to US\$142.95 per US\$5,000 note.

Agent: Morgan Guaranty Trust Company  
**JPMorgan**

**NATIONAL BANK OF CANADA**  
USD 200,000,000 Floating Rate Notes due 2001

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from August 19, 1997 to November 19, 1997 the Notes will carry an Interest Rate of 5.58328% per annum.

The Coupon Amount payable on the relevant Interest Payment Date, November 19, 1997 will be USD 149.20 per USD 10,000 principal amount of Note and USD 1,492.00 per USD 100,000 principal amount of Note.

The Calculation Agent  
**Kredietbank Luxembourg**

**To Advertise**

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Melanie Miles on

Tel: +44 (0)171 873 3349

Fax: +44 (0)171 873 3064

**Notice to Shareholders**

Local and National Investment Services  
US\$100,000,000 Floating Rate Notes 2001

(Consent to the holders of the Notes to be issued)

Notice is hereby given that a Shareholder of the above Notes, who is entitled to attend and vote at the meeting of the Shareholders to be held on 19th August 1997 at 10.00 a.m. at the National Bank of Canada, 100 King Street West, Toronto, Ontario, Canada, M5X 1C5, for the purpose of considering and voting on the following agenda:

1. Submission of the Reports of the Board of Directors and of the Auditor;
2. Approval of the Statement of Net Assets and of the Statement of Operations for the year ended as at December 31, 1996;
3. Allocation of the net results;
4. Discharge to the Directors;
5. Statutory Appointments;
6. Miscellaneous.

Shareholders are advised that no quorum is required for the terms of the agenda of the Annual General Meeting and that decisions will be taken by the majority of the votes expressed by the shareholders present or represented at the meeting. In order to attend the meeting the owners of bearer shares have to deposit their shares five clear days before the meeting at the offices of Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg.

**THE BOARD OF DIRECTORS**



COMPANIES AND FINANCE: UK

# Argos sales pick up in second half

By Christopher Price

Argos, the high street retail chain, yesterday reported a 12 per cent drop in interim pre-tax profits, but said it had seen an uplift in second half sales due mainly to the impact of building society windfalls.

The group said that the 12 per cent sales growth seen in the first half had accelerated to 15 per cent since the half year-end. Like-for-like sales of 5 per cent had risen to 6 per cent in the first eight

weeks of the second half. Pre-tax profits of £28.1m (£45.8m) were struck on sales of £337m in the 24 weeks to 14 June.

Mike Smith, chief executive, said the fall in profits reflected a strong first half in 1995, higher costs and patchy consumer demand. The recent uplift pointed to a strong second half, although he warned that "the current buoyancy in consumer confidence and overall retail sales may not be sustainable."

Higher costs in the interim period were largely because of an increase in paper prices, which added £3m to the costs of producing its catalogues, higher promotion spending and the start-up of the group's Dutch operations.

In the second half, sales of "big ticket" items such as brown goods, furniture and consumer electronics had risen sharply. However, these product areas saw low or negative growth during the first half as consumers

put off big purchasing decisions ahead of the election and before receiving their windfall payments.

However, Mr Smith said that even in the areas which had experienced low growth, Argos had managed to improve its market share.

He added that the company expected its gross margin to be denied in the second half reflecting the different mix of products in demand.

It also reflected the company's determination to "set

the price agenda. Price deflation in the spring/summer catalogue was 2 per cent, and this was expected to rise to 3.5 per cent in the autumn/winter edition.

Argos increased its total number of stores by 11 to 415 during the first half. Ten of these were new format high street stores, while there were five closures.

Six superstores were opened, taking the total to 69. A further 18 stores will be added in the second half. The company believes it can

build up a network of between 700 and 800 stores before the market is saturated.

The company said it had been encouraged by the success of its first three "First Stop" stores, a down-market electrical goods chain. It planned to open more in the second half.

The Dutch operations were on schedule to open in February. Five sites have been earmarked, with first half costs of some £5m, rising to £7-£8m in 1998.

# British Biotech chief receives 59% pay rise

By Daniel Green

Keith McCullagh, chief executive of British Biotech, took a 59 per cent pay increase for the year to April 30 1997, in spite of a fall in the share price of the UK's flagship biotechnology company from 385p to 242p over the period.

Last year, the company completed a £143m rights issue, began a series of final stage trials on its cancer drug, marimastat, and produced results from its final stage trials of Zalcitabine, a pancreatitis drug, which were good enough to submit the drug to medical regulators. It is still awaiting the regulators' decision.

The annual report also reveals that Pam Kirby, the commercial director who joined the company last September from the Swedish drugs company Astra, was paid £197,000 (£321,000) for the seven months to April 30. She was also awarded 600,000 share options, although the exercise price of 202p means she would take a loss if they were exercised today.

Mr McCullagh is the only executive director surviving from the end of the previous financial year. Those that have left since have between them made profits of almost £2m exercising share options on leaving the company.

The company was founded in 1984 and has been loss-making since. In the year to April 1997 it made a pre-tax loss of £23.5m. The company's stock market value - £1.2bn - is based on anticipated profits from drugs in development. Its shares fell 1p to 182½p yesterday.

Mr James Noble, the finance director who resigned in February, made £23m profit on share options as well as being paid £160,000 in salary and benefits, plus a further £204,000 as "compensation for loss of office".

Dr Peter Lewis, the research and development director who retired on June 30 this year, earned £1.7m from salary and the exercise of share options. In the previous year he earned more than £2m.

Dr John Gordon, the former research director who retired in July 1996, made a profit of £2.8m exercising share options.

The performance-related bonuses - £108,000 for Mr McCullagh and £45,000 for Ms Kirby - were based on targets set in May 1996.

Mr Ronald Irwin, the commercial director who retired on September 30 1996, made a profit of £2.2m on exercising his options.



Steele gaze: John Severs said 'we ain't going to keep losing money'

# Severfield-Reeve may sell food hygiene arm

By Sander Thomas

Severfield-Reeve, the structural steel producer, yesterday said it was considering selling or shutting down its troubled food hygiene subsidiary.

made an operating loss of £302,000 in the first half, more than double the £450,000 loss for all of 1996.

"We ain't going to keep losing money," Mr Severs said. "It's not the product, it's the industry. There's such a reluctance in the meat industry to change their ways in health and hygiene." The BSE scare had also left the UK meat processing industry without spare cash for such machinery and the strong pound had hurt exports.

About 27 per cent of turnover in the main structural steel subsidiary is made abroad. Mr Severs said this should rise if the company won tenders for a number of power plant construction contracts.

It made the announcement alongside first-half 1997 results showing a doubling of pre-tax profits from £1.6m to £3.2m (£9.94m) on turnover up 86 per cent at £28.3m (£27.6m).

The shares, which have risen 87 per cent in two years, lost 3p to 491½p yesterday.

Earnings per share nearly doubled to 13.8p (£9.2p), and the interim dividend more than doubled to 3.75p (£1.75p). The company had net cash balances of about £3m.

John Severs, managing director, said the subsidiary in question was Manabo, which makes cleaning and disinfecting machines for knives and chainmail gloves designed for meat processing.

Group operating profit margins improved from 7.2 to 7.8 per cent. Mr Severs credited the company's new site at Dalton with cutting production costs and lifting productivity by 36 per cent. The plant's third production line is being extended.

ABN Amro Hoare Govett, the house broker, raised its forecast pre-tax profits for the full year to £8m and £10.25m for 1998. Earnings per share of 27p-28p for this year give a forward p/e of about 18, falling to 14.

# DLJ in talks to acquire London Global for £100m

By John Gapper, Banking Editor

Donaldson, Lufkin & Jenrette, the specialist US investment bank that has been expanding its European activities, is in talks to acquire London Global Securities, the securities lending company, for about £100m (£163m).

private equity investment, would provide capital backing for London Global.

The target acts as a broker between institutions that want to borrow or to lend shares. Stock lending is used by investment institutions wanting to take advantage of an expected fall in the price of a company's shares.

been one of the main activities used by custodians to raise profits.

Both DLJ and London Global declined to comment on the talks yesterday. However, the firms are thought to be in the final stages of negotiating a complex deal.

The talks, which are over details of a deal, could lead to an announcement next week. The purchase would come just six months after DLJ bought Phoenix Securities, the mergers and acquisitions advisory boutique.

An institution wanting to go short of a company's shares can borrow them from another institution to sell. It makes a profit on the deal if it can buy shares in the market at a lower price later on to give back to the lender.

London Global, which was founded in 1990 and has offices in both London and Greenwich, Connecticut, has become the biggest independent securities lending broker. It acts as a market maker in securities to be borrowed or lent.

DLJ, which has built up a strong reputation in the US for specialising in mergers and acquisitions advice, high yield bond underwriting and

Stock lending is becoming more important in London as UK institutions - which have been wary of selling shares short - adopt US practices. Stock lending has

Owned by the investment fund Paloma Partners since its foundation, it was put up for sale earlier this year. It still lends shares to Paloma to cover short positions held as part of its trading.

# Alliance Tst keeps pace with market

By Jean Eaglesham

A successful new savings scheme to attract more private investors helped Alliance Trust to ensure that its share price kept pace with its asset growth for the six months to July 31.

# Burmah continues chemicals revamp

By Roger Taylor

Burmah Castrol, the oil company, has continued the reorganisation of its chemicals division by selling Columbia Cement, part of its adhesives business, and buying SMC Group, which makes coatings and resins.

Burmah said the deal gave it a leading position in the European market for binders and coatings used to make foundry mouldings.

It will be integrated with Burmah's foundry division and Jan-Roel van der Sluis, general manager of SMC, will become divisional chief executive.

Columbia, which last year had turnover of £33m (£20m) from selling sealants, adhesives and coatings, has been sold to TACC International of the US for \$23m.

Last month Burmah announced that it would be reorganising its chemicals division, which with sales last year of \$66m accounts for about a fifth of group turnover.

It said yesterday it planned to expand these divisions with further modest acquisitions and would sell off any businesses which failed to perform or which had limited growth potential.

After the sale of Columbia, Burmah is left with one other industrial adhesives business, with turnover of about £20m, which it aimed to sell in the near future.

SMC was bought for DM65m (£37.5m) from Chemetal, a subsidiary of Dynamit Nobel.

Columbia, which last year had turnover of £33m (£20m) from selling sealants, adhesives and coatings, has been sold to TACC International of the US for \$23m.

It intends to dispose of its adhesives businesses and focus the chemicals division on four areas: foundry, steel mills, construction and screen printing.

# Cortecs drug gets US patent

By Daniel Green

Cortecs, the Anglo-Australian biotechnology company, has been granted a US patent for its Flustat oral influenza vaccine.

# About-turn at Brazilian Smaller

By Jean Eaglesham

In a complete turnaround, the board of Brazilian Smaller Companies Investment Trust recommended yesterday that shareholders vote to continue the trust, rather than wind it up.

The move was prompted by investor dissatisfaction with the discount, which was then 18 per cent, it led to an announcement in May that shareholders would get a vote "which could lead to [the trust's] liquidation".

Cortecs also said it had received approval from the Supreme Court of Western Australia clearing the way for UK PLC status which it plans to have completed by next month.

It claimed a wind-up would cost about £16.8m (£10.3m), soaking up about 15 per cent of net assets. This could more than offset the gain to investors from the eradication of the discount to net assets, currently 12 per cent.

But the independent directors recommended yesterday that the trust should continue in its present form, rather than being wound up or - as many shareholders wanted - changing its investment remit to focus on larger Brazilian companies.

The company's primary stock listing will then be in London, with secondary listings on the Australian Stock Exchange and Nasdaq in the US. These are the latest in a series of steps forward for the company that have helped offset the damage to sentiment in the biotechnology sector by a series of clinical trial failures this year.

The trust, which has a market value of \$55m, admitted that most shareholders "would probably prefer, and could probably be satisfied by" a reconstruction. But it hoped they "will be persuaded by our arguments" before a meeting next month to decide the trust's future.

Peter Burrell, a director of Minorco and one of the independent directors, claimed the estimated wind-up costs had not driven the recommendation.

"The principal reason for our recommendation is that we still believe in the product we offered at the time of the trust's launch. The investment story remains consistent." But he added that the wind-up cost "undermines the pretext - is the discount - on which the rumblings of discontent from shareholders first surfaced".

Last week, the company said it had begun the final stage of clinical trials for Pseudostat, a treatment for bronchitis, and hoped the drug could be on the market by late 1999.

The fate of the trust, which is managed by Foreign & Colonial Emerging Markets, has been in question since January, when it appointed SBC Warburg to advise on the best way to improve shareholder value.

Mr Young is not concerned by last week's fall in the US and UK stockmarkets, which matches Alliance's own cautious outlook. "It is nice to see some of the froth getting blown off the markets - it suits our book very well," he says.

## RESULTS

						Dividends		
	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Argos	24 wks to June 14	627.2	(561.3)	28.1	(31.8)	0.78	(7.05)	6.11
Baldwin	6 mths to Apr 30	14.3	(11.4)	2.8	(3.1)	11.2	(11.2)	1.5
Crown Eggless	Yr to Mar 31	11.4	(10.5)	0.48	(0.92)	16	(38.9)	8
Hampton Trust	Yr to Mar 31	30.7	(20)	6.48	(5.95)	8.66	(9.91)	16
Hydro-Dynamite	14 wks to May 31	8.05	(1)	0.39	(1)	9.3	(1.77)	2.4
JKT Oil & Gas	6 mths to June 30	18.3	(4.32)	4.65	(3.54)	1.291	(1.4)	0.425
Microvite	6 mths to June 30	20.9	(33.8)	0.424	(1.81)	0.1	(1.4)	1.75
Severfield-Reeve	6 mths to June 30	52.3	(27.8)	3.93	(1.8)	13.361	(6.2)	3.75
Sherrwood Ltd	6 mths to June 30	13.1	(11.8)	1.08	(0.71)	7.9	(5.5)	1.8
Shorro	6 mths to June 30	6.71	(6.52)	0.375	(0.412)	3.8	(4.4)	0.7
Taylor Nelson AGS	6 mths to June 30	45.1	(42.4)	5.52	(4)	1.68	(1.23)	1.5
Urduy & Carlsberg	6 mths to June 30	9.88	(10.7)	0.613	(0.574)	2.81	(2.8)	-
Ultra Electronics	6 mths to June 30	71.5	(57.8)	8.96	(7.43)	9.7	(7.3)	2.4

Investment Trusts	NAV (p)	Attributable Earnings (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year	
Alliance Trust	6 mths to July 31	2,935 (2,434)	16.8 (16)	33.49 (\$17)	18.5	Oct 3	17	-	55.5
Phoenix Enterprise	Yr to June 30	314 (289.2)	0.291 (0.22)	6.48 (£5.13)	0.75	Oct 17	3	5	28.5
Quilter SpA	6 mths to June 30	280.7 (283.4)	3.77 (5.13)	5.28 (£6.83)	3.82	Oct 17	3	5	6.08

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. \$/AIn stock. \$/After exceptional charge. \$/After exceptional credit. \$/Increased capital. \$/At December 31. \$/Already paid.

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ⊕All stock. ⊕After exceptional charge. ⊕After exceptional credit. ⊕on increased capital. ⊕At December 31. ⊕Already paid.

This announcement appears as a matter of record only

## Bank MENATEP

USD 80,000,000  
TRANSFERABLE TERM LOAN FACILITY

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Agent  
LONDON FORFAITING ASIA LIMITED  
August 1997

LONDON FORFAITING







# CURRENCIES AND MONEY

## Stable stocks help dollar and pound

### MARKETS REPORT

By Simon Kuper

The dollar and pound rose yesterday as the US and UK stock markets ended last week's slump.

Friday's 3.1 per cent slide in the Dow Jones Industrial Index found no follow-up in London or New York yesterday. The dollar and pound also rose on hints that the Bundesbank would not increase interest rates.

Hans-Jürgen Krupp, Bundesbank council member, said late yesterday that a German rate rise now "would be highly damaging for domestic economic reasons". The speed of the D-Mark's fall was worrying, but had not created inflation.

His comments reduced fears that the Bundesbank might shift to a variable repo rate at today's securities repurchase tender. The German repo rate has been fixed at 3 per cent for just

one week. The bank has hinted at a move to a variable repo, which could push rates slightly higher.

Few in the market now expect either the Bundesbank or the Federal Reserve to raise rates today, when the Fed's two-day open market committee meeting ends. Robert Lynch, currency strategist at Paine Capital Markets in New York, said the 4 per cent rebound in the D-Mark against the dollar in the last 15 days meant that the Bundesbank no longer had to raise rates to defend its currency.

In late trading yesterday the dollar was at DM1.8245 above its Friday London close. The pound was at DM2.5939 to the German cur-

rency, 1.2 pfennigs above Friday's close. It was helped by high UK government debt repayment figures for July.

The dollar gained against the yen after Japan's trade surplus for July emerged in line with expectations - it rose nearly 70 per cent year on year. The surplus has been growing because of the yen's fall of the last two years. However, belief is fading that the US might try talking up the yen as a way of cutting the surplus. Jeffrey Lang, deputy US trade representative, failed to scare traders when he said Washington was concerned about the surplus upward trend. The dollar closed Y06 higher in London at Y117.7.

The Asian currency crisis just will not end. Yesterday the Indonesian rupiah fell to a record low below 3,000 to the dollar, before recovering later to 2,970/80. The rupiah has now fallen 12 per cent since Indonesia abandoned

analyst at Credit Agricole Indosuez in London. He said yesterday's rupiah selling was chiefly by local banks and companies seeking to hedge against future falls in the currency.

The Hong Kong dollar, pegged at HK\$7.80 to the US dollar since 1983, remained under pressure from last week. However, Joseph Yam, chief executive of the Hong Kong Monetary Authority, said he was winning the battle against speculators thanks to the rise in market interest rates. He has promised to maintain the peg and to "burn" speculators with high rates. He warned local banks against funding foreign speculators. All other Asian

currencies pegged to the US dollar have had to devalue this summer.

The Philippine peso, one of those devalued, hit an all-time low yesterday, breaking through the psychologically crucial level of 30 to the dollar.

The Bank of Portugal cut interest rates again yesterday. Its fixed-rate repurchase pact, its drain rate and its emergency lending rate each fell by 20 basis points, to 5.5 per cent, 5.2 per cent and 7.2 per cent respectively. The escudo closed unchanged against the D-Mark.

Michael Pettit, technical analyst at the ECU group in London, said the pound's recent slide against the D-Mark was over. The pound had held above support for its upward trend at about DM2.800. "Medium and long term technical support for the pound looks extremely good," he said.



POUND SPOT FORWARD AGAINST THE POUND									
Aug 18	Closing	Change	Settle	Day's	One	Three	One	Bank	
	mid-point	on day	spread	high	month	months	year	of	
					Rate	Rate	Rate	Rate	JPY Index
Europe	1.8245	+0.0058	488	1.8303	20.8724	20.8291	20.8018	3.2	102.1
Australia	1.8245	+0.0058	488	1.8303	20.8724	20.8291	20.8018	3.2	102.1
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USA	1.8245	+0.0058	488	1.8303	20.8724	20.8291	20.8018	3.2	102.1

DOLLAR SPOT FORWARD AGAINST THE DOLLAR									
Aug 18	Closing	Change	Settle	Day's	One	Three	One	Bank	
	mid-point	on day	spread	high	month	months	year	of	
					Rate	Rate	Rate	Rate	JPY Index
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CROSS RATES AND DERIVATIVES									
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## COMMODITIES AND AGRICULTURE

## Restarts seen at aluminium smelters

## MARKETS REPORT

By Kenneth Gooding  
and Robert Corzine

The squeeze in the London Metal Exchange's aluminium market is encouraging producers to restart smelting capacity that has been shut down for five years, says Ted Arnold, analyst at Merrill Lynch. The industry has about 800,000 tonnes of annual capacity, or roughly 4 per cent of the global total, waiting to be reactivated when prices are right.

Writing in Merrill's latest Com-

modity Market Trends publication, Mr Arnold suggests: "The squeeze and price strength, and the very much larger turnover associated with the rally, has allowed some producers to lock in prices of \$1,640 to \$1,650 a tonne for 1998 and 1999. We expect to see some big capacity restarts in early 1998 as a result."

The premium for aluminium for immediate delivery on the LME, compared with the price of three-month metal, increased yesterday to \$70 a tonne, up from \$33 on Friday.

Traders suggested the squeeze

might attract 30,000 to 40,000 tonnes of aluminium to LME warehouses this week. The exchange said yesterday that stocks had risen by 6,650 tonnes to 638,500 tonnes.

In contrast, the squeeze in the copper market has weakened considerably and the premium for immediate delivery has been eliminated. The price of copper for immediate delivery fell by nearly 4 per cent yesterday to \$2,160 a tonne while three-month copper was at \$2,163 a tonne. In the last two trading days cash copper prices have fallen by 6 per cent.

Crude oil prices fell yesterday as one of the market's main props in recent weeks - concerns about gasoline supplies in the US - began to recede.

The price of Brent Blend for October delivery was down about 20 cents to \$18.79 a barrel in late trading on London's International Petroleum Exchange.

A combination of the approach- ing end of the summer holiday season in the US and news of the start-up of an east coast refinery that had been out of action, helped take the steam out of the markets. However, many traders believe

supply concerns may keep the market from falling steeply in spite of the increasing supply of Iraqi crude oil under the resumed oil-for-food programme.

The first shipment from Iraq's Gulf port of Mina al-Bakr was being readied yesterday to supplement exports from Turkey's Mediterranean terminal at Ceyhan.

Meanwhile, the Middle East Economic Survey yesterday estimated that Opec output in July was up only 60,000 barrels a day, to 26.4m b/d. But the resumed Iraqi exports could push the August figure up sharply, the newsletter said.

## Photography boosts silver

By Kenneth Gooding,  
Mining Correspondent

Happy snappers in China and Russia are helping to boost photographic demand for silver, according to a mid-year industry outlook produced for the Washington-based Silver Institute.

It suggests strong growth in amateur photography will push photographic demand for silver this year to 233m troy ounces, 3 per cent ahead of last year's level. In 1996 photographic demand for silver rose by a modest 1.4 per cent to 226m ounces.

Peter Krause, the consultant who completed the survey for the institute, said amateur photography was growing fast in China and Russia as domestic processing arrangements improved.

Film usage would grow at 11 per cent this year, in both countries, and China's growth could continue at an

annual 5-10 per cent for five to 10 years.

Photography is one of the "three pillars of demand" on which silver consumption depends. The others are jewellery and silverware, and industrial and decorative. Each accounts for about 200m ounces of annual demand.

Mr Krause pointed out that the net amount of new silver mined was not increasing at the pace of total demand, because the industry was recycling much more of the metal.

He said his last estimate of silver reclaimed from photographic scrap worldwide, made in 1995, was 158m ounces.

In addition, the industry was using as little metal as possible. For example, in the past 15 years the amount of silver used in X-ray film had been cut by half.

## IPE natural gas futures catch on

By Robert Corzine

The new natural gas futures contract on London's International Petroleum Exchange is continuing to attract growing interest, according to IPE officials.

The number of contracts yet to expire has reached a record 6,210 lots. That represents 190m therms, or more than twice the daily level of UK gas production. Trading volumes so far this month have averaged 300 lots, well up on July's 220 lots a day.

IPE officials say they have recently added safeguards to the screen-based system to prevent the human error which has led to several disputed trades. They have also removed a feature which allowed users of the system

to know the identity of their opposite number when a trade was completed. IPE officials said traders had asked for greater anonymity.

The exchange is also working on supplementing the present monthly contract with a quarterly option. This would allow users of the over-the-counter gas market, which deals in quarterly contracts, to use the IPE contract as a hedge.

The IPE is hoping the expansion of competition into the domestic gas market will attract even greater use of the contract. About 20 companies are regular traders, and although most are involved in the physical gas market, exchange officials say there is some demand from speculative investors.

## Botswana diamond expansion on fast track

If a shortage of gem diamonds develops at the beginning of the next century, as some believe it will, Botswana will be one of the main beneficiaries.

Diamonds already account for three-quarters of Botswana's export earnings, one-third of its gross domestic product and 50 per cent of government revenues. All this is generated by Debswana, a company jointly owned by the government and De Beers of South Africa.

Debswana is the world's biggest rough (or uncut) diamond producer in value terms but it intends to become even bigger. It is investing 1.4bn pula (US\$410m) to expand its Orapa mine, the biggest capital project ever seen in Botswana.

A feasibility study for the expansion was completed as long ago as 1994, but the scheme was put on hold because of weakness in the diamond market. The go-ahead was eventually given last year, and in order to make up for lost time, the project has been put on a "fast track".

Approval for the project coincided with the signing of another five-year marketing contract between Debswana and De Beers UK-based Central Selling Organisation, which dominates world

trade in rough diamonds. The government also extended Debswana's mining lease until 2017.

Debswana hopes the Orapa expansion will double the mine's annual output to 12m carats (one carat is one-fifth of one gramme) as early as January 2000.

This would take Debswana's total annual production to at least 24m carats. The company has been continuously lifting output for about 30 years. Last year production increased by 4.5 per cent to 17.7m carats worth about US\$1.3bn and Debswana expects another rise this year to 18.5m carats.

Extra output this year will result from a switch from six to seven days a week working. This was at first resisted by the unions but now, according to Derrick Moore, general manager of the Jwaneng mine, "Employees love it. It gives them more money and more time off."

Jwaneng, for the time being the biggest mine in the group, is widely believed to be the richest diamond mine in the world. Its output was expanded by one third by a 300m pula (worth \$120m at the time) project completed in 1995.

Mr Moore says: "Jwaneng's output has been increasing almost continuously since it came into pro-



Derrick Moore, general manager of Jwaneng, considered the world's richest diamond mine

duction [in 1982]. Now is a time to consolidate." He says Jwaneng will instead concentrate on cutting costs - by 10 per cent in the five years from 1995.

Seven-day working will help a great deal. It will give Jwaneng a 14 per cent increase in carats produced this year - from 11m in 1996 - and boost productivity as the mine and plant will shut down for only 13 days a year for maintenance.

Orapa, which began production in 1971, last year produced 5.4m carats. Once the expansion is finished, production costs will fall rapidly because output will be doubled with only 200 more employees, compared with the present 2,560 and only a 30 per cent rise in overheads.

A new treatment plant

capable of handling 17.8m tonnes of ore a year will be included in the project, some 17 stories high and destined to be the tallest building in Botswana.

Dave Porter, head of the so-called "Orapa 2000" project team, admits that completing the expansion by January 2000 is a tough job. If problems occur, they will probably be associated with the availability of construction capacity in southern Africa.

"I feel it might be reaching

its limits as there are other big projects in the pipeline," he says.

Orapa's ore goes at least

210 metres deep and this will take another 30 years to mine. At 210 metres, the ore body splits into two and Debswana estimates there is enough at deeper levels to keep an underground mine occupied for 25 years. Mr Porter says: "Orapa is a young mine with a long life ahead of it."

There is also the possibility that the mine might be expanded again, should market conditions require it.

The idea of a gem diamond shortage is gaining credibility. James Fiston, of Standard Equities, the Johannesburg stockbroker, suggested at the Financial Times Diamond Conference last October that shortages might develop by 2000 because stocks in Russia, one of the world's big producers, might run out in 1998.

Julian Ogilvie Thompson, De Beers' chairman, said this year the group has contingency plans in case of a shortage after 2000, even though new production will be building up in Canada's Northwest Territories, as well as in Botswana.

Mr Ogilvie Thompson said: "We have been looking at where we could increase production if necessary. We are doing some medium-term planning."

Kenneth Gooding

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

## ■ ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Cash	3 mths
Close	1740-40	1675-80
Previous	1734-35	1701-02
High/Low	1680/1651	1680/1651
AM Official	1703-9	1653-4
Kerb close		1677-8
Open Int.	282,897	
Total daily turnover	153,553	

## ■ ALUMINIUM ALLOY (\$ per tonne)

	Close	Previous
Aluminium	1475-85	1502-7
Aluminium	1485-90	1515-20
High/Low	1470-75	1505/1495
AM Official	1470-75	1510-20
Kerb close		1500-10
Open Int.	5,496	
Total daily turnover	1,081	

## ■ LEAD (\$ per tonne)

	Close	Previous
Lead	596-5.75	610-11
High/Low	605-06	616-17
AM Official	607-7.5	612-13
Kerb close		609-10
Open Int.	36,088	
Total daily turnover	11,983	

## ■ NICKEL (\$ per tonne)

	Close	Previous
Nickel	6850-85	6885-90
High/Low	6850-70	6900-70
AM Official	6850-85	6900-85
Kerb close		6870-75
Open Int.	55,227	
Total daily turnover	18,816	

## ■ ZINC, special high grade (\$ per tonne)

	Close	Previous
Zinc	1830-33	1481-3
High/Low	1681-84	1526-28
AM Official	1673-74	1511-12
Kerb close		1482-3
Open Int.	92,091	
Total daily turnover	32,671	

## ■ COPPER, grade A (\$ per tonne)

	Close	Previous
Copper	2150-60	2152-3
High/Low	2248-48	2248-60
AM Official	2170-70	2170-70
Kerb close		2174-5
Open Int.	140,831	
Total daily turnover	105,559	

## ■ LME AM Official 5% rate, 1.0070

## LME Closing 5% rate, 1.0105

High 1.0033 3 mths 1.0033 6 mths 1.0033 9 mths 1.0033

## ■ HIGH GRADE COPPER (COMEX)

	Sell	Buy	High	Low	Open
Aug	96.50	-2.30	96.50	96.50	295 1,805
Sep	96.70	-3.30	100.00	96.45	12,984 30,702
Oct	96.50	-3.10	96.50	96.50	220 1,708
Nov	96.50	-2.90	96.50	96.50	33 1,437
Dec	96.50	-2.80	96.40	96.55	4,199 10,144
Jan	97.10	-2.40	96.50	97.30	40 898
Total					18,497 45,411

## ■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

## Gold/Troy oz \$ price £ equiv SFR equiv

	Close	Previous
Gold	322.80-323.10	
Opening	326.40-326.70	
Morning fix	325.05	302.302 489.338
Afternoon fix	322.60	200.597 487.898
Days' High	326.50-326.80	
Days' Low	322.50-322.80	
Previous close	324.30-324.60	

## Luce Ltd Mean Gold Lending Rates (% US\$)

	1 month	2 mths	3 mths
2.60	3.14	3.14	3.46

## Silver Fix p/roy oz US \$ equiv

	Spot	3 months	6 months
Silver	281.60	462.50	467.25
3 months	285.50	467.25	473.15
6 months	288.50	473.15	473.15

## Gold Coins \$ price £ equiv

	Close	Previous
Gold	319-321	198-200
Maple Leaf		
New Sovereign	75-77	46-48

## Precious Metals continued

## ■ GOLD COMEX (100 Troy oz, \$/roy oz)

	Sell	Buy	High	Low	Open
Aug	321.10	-4.6	321.5	321.0	282 552
Sep	321.10	-4.6	321.5	321.0	1 2
Oct	321.10	-4.6	321.5	321.0	1 2
Nov	321.10	-4.6	321.5	321.0	1 2
Dec	321.10	-4.6	321.5	321.0	1 2
Jan	321.10	-4.6	321.5	321.0	1 2
Feb	321.10	-4.6	321.5	321.0	1 2
Mar	321.10	-4.6	321.5	321.0	1 2
Apr	321.10	-4.6	321.5	321.0	1 2
May	321.10	-4.6	321.5	321.0	1 2
Jun	321.10	-4.6	321.5	321.0	1 2
Jul	321.10	-4.6	321.5	321.0	1 2
Total					5,739 30,888

## ■ PLATINUM NYMEX (50 Troy oz, \$/roy oz)

	Sell	Buy	High	Low	Open
Aug	418.4	-1.1	420.0	418.4	2,160 11,505
Sep	418.4	-1.1	420.0	418.4	1 2
Oct	418.4	-1.1	420.0	418.4	1 2
Nov	418.4	-1.1	420.0	418.4	1 2
Dec	418.4	-1.1	420.0	418.4	1 2
Jan	418.4	-1.1	420.0	418.4	1 2
Feb	418.4	-1.1	420.0	418.4	1 2
Mar	418.4	-1.1	420.0	418.4	1 2
Apr	418.4	-1.1	420.0	418.4	1 2
May	418.4	-1.1	420.0	418.4	1 2
Jun	418.4	-1.1	420.0	418.4	1 2
Jul	418.4	-1.1	420.0	418.4	1 2
Total					2,176 14,822

## ■ PALLADIUM NYMEX (100 Troy oz, \$/roy oz)

	Sell	Buy	High	Low	Open
Aug	203.50	-1.00	205.00	203.50	1,276 2,554
Sep	203.50	-1.00	205.00	203.50	1 2
Oct	203.50	-1.00	205.00	203.50	1 2
Nov	203.50	-1.00	205.00	203.50	1 2
Dec	203.50	-1.00	205.00	203.50	1 2
Jan	203.50	-1.00	205.00	203.50	1 2
Feb	203.50	-1.00	205.00	203.50	1 2
Mar	203.50	-1.00	205.00	203.50	1 2
Apr	203.50	-1.00	205.00	203.50	1 2
May	203.50	-1.00	205.00	203.50	1 2
Jun	203.50	-1.00	205.00	203.50	1 2
Jul	203.50	-1.00	205.00	203.50	1 2
Total					1,391 1,745

## ■ SILVER COMEX (5,000 Troy oz, \$/roy oz)

	Sell	Buy	High	Low	Open
Aug	448.2	-5.9	449.0	448.0	1 2
Sep	448.2	-5.9	449.0	448.0	1 2
Oct	448.2	-5.9	449.0	448.0	1 2
Nov	448.2	-5.9	449.0	448.0	1 2
Dec	448.2	-5.9	449.0	448.0	1 2
Jan	448.2	-5.9	449.0	448.0	1 2
Feb	448.2	-5.9	449.0	448.0	1 2
Mar	448.2	-5.9	449.0	448.0	1 2
Apr	448.2	-5.9	449.0	448.0	1 2
May	448.2	-5.9	449.0	448.0	1 2
Jun	448.2	-5.9	449.0	448.0	1 2
Jul	448.2	-5.9	449.0	448.0	1 2
Total					2,130 4,882

## ■ ENERGY

## ■ CRUDE OIL NYMEX (1,000 barrels, \$/barrel)

	Sell	Buy	High	Low	Open
Aug	18.88	-0.18	20.05	18.67	42,577 43,195
Sep	20.11	-0.15	20.17	19.92	36,867 56,564
Oct	20.15	-0.18	20.26	20.06	12,897







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**ALH - Cont.**

- Bellco
- Bendcast Plastics
- Bentley Video
- Berkey
- Birmingham Wayne
- BGI Entertainment
- BSC Multimedia
- Sanctuary Music
- Seawood Inns
- Servpro
- Scrimson
- Selectel
- Self-Storing Systems
- Shelton
- Shelton (NJ)
- SEAR Energy
- Servicio Monterey
- Slick Business Sales
- Smashboard
- Solid State Supplies
- Southwest Corp.
- South Beach Club
- Spencer's
- Southern Hairs
- Staffways
- Stanford Park
- Starline
- Starter
- Starry Free Items
- Sutton Hardware
- Swiss Integrated
- TDS Circs
- TRACSYS Network
- Tro Fennell
- Thomas Postels
- Tom Postels
- Top Performance
- Trademark Race
- Trinity Care

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## Financial Times, World Business Newspaper

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
NovCast	US\$8.675		3000	8.75	8.375	Delta & Pacific	US\$2.75		1510	34	25
Novus Systems	US\$6.75		2720	6.125	6.75	Meritas Int'l	US\$0.095		6	11.75	10.5
Novus	US\$1.50		110	1.5	1.5	NFL	US\$2.75	+0.125	6	21.25	21.625
Novotek Holdings	US\$7		13100	7.15	6.45	Pfizer	US\$3.5		0	6.125	3.5
Odyssey Resources	US\$2.675	-0.25	0	2.375	16.875	Schaeffler-Blechem	US\$4.75		21425	17.5	17.5
ODAP Trust	US\$8.125	+0.1875	0	8.125	8.375	Tegapet Int'l	US\$1.75		5	3.5	3.5
Optic Telecom AG	US\$1.5	-0.125	22728	1.125	1.125	Teknadyne	US\$3.75	-0.1	0	3.50	3.75
Optimatrix	US\$1.5		12	1.5	1.5						

Source: FRBTS. *Please note that mid prices are now used to calculate gains and loss information about EASDAQ can be found on the Web site at: <http://www.easdaq.com> EASDAQ is located in Brussels (Tel: +32 2 227 65 32) and in London (Tel: +44 171 439 8900).*



# Dow dips further at midsession

## AMERICAS

US stocks weakened further, following Friday's 247-point collapse in the Dow Jones Industrial Average, as technology stocks came under renewed pressure after a mixed financial report by the computer maker, Hewlett-Packard, writes John Lobate in New York.

At 1pm, the Dow was 52.26 lower at 7,942.40 and the broader Standard & Poor's 500 index was down 5.29 at 896.52. The Nasdaq composite index, which is weighted heavily in technology issues, also lost ground, off 10.76 at 1,551.27.

Contributing to the market's pull back is a growing list of profit warnings by leading stocks, including Gillette last Friday. "The flow of earnings news has been disappointing," said Doug Cligot, US equity strategist at J.P. Morgan. Although several factors added to the recent selling trend, he said that one contributor was the rift between bonds and stocks in early August. "At the peak, the S & P 500 was some 7 to 8 per cent overvalued against the 30-year Treasury bond yield," said Mr Cligot. He believed that the market's current level, after the recent pull-back, was fairly-valued against Treasuries, although further short-term falls

## EUROPE

European markets mostly clawed back early losses as Wall Street opened firmer. Indeed, Frankfurt ended modestly higher, supported by a rally for Volkswagen after a solid set of first-half results.

Shares rallied from earlier heavy losses, although volume was subdued. At the close of electronic trading, the Dax index was up 2.96 at an Ibis-indicated 4,080.55 having touched a low of 3,965.31 earlier in the session.

VW gained DM30 to DM1,283 after the motor giant reported a strong rise in interim profits. Analysts said the results trended towards the upper end of market expectations.

BMW added DM1.50 to DM1,300.50 following a forecast from the carmaker that the group was likely to repeat its strong first-half performance in the final-half of the year.

Among retailers, Karstadt gained DM27.50 to DM689 as optimism about restructuring in the sector continued to do the rounds.

AMSTERDAM made a comeback after last week's sharp falls, and the AEX index ended 23.06 or 2.6 per cent higher at 917.48 after erasing an early 14.96 fall.

## ASIA PACIFIC

Tokyo ended 1.5 per cent lower on the Nikkei 225 average after losing almost 500 points at one stage, writes Gwen Robinson.

Discouraged by Friday's Dow shakeout and the decline of Nikkei-225 index futures in Osaka, investors sold stocks across the board. The Nikkei 225 average fell 284.93 to 19,041.10 after trading between 18,835.48 and 19,213.12.

Share prices opened sharply lower on heavy selling of blue chips, which drove the 225 index below the 19,000 level by mid-morning. The slide accelerated as hedge selling of index futures prompted arbitrageurs to dump cash stocks.

In the afternoon, however, bargain hunters moved in to help some blue chips and other issues recoup losses, although trading remained erratic. Analysts were divided on the market's short-term outlook.

Volume was relatively modest. Declines overwhelmed advances 776 to 314 with 143 unchanged. The Topix index of all first-section stocks fell 11.40 to 1,490.29 and the capital-weighted Nikkei 300 was down 2.33 at 291.82 in London.

South African shares fell sharply in response to Wall Street's sell-off on Friday, but pared their losses when the US market opened firmer.

The all share index lost 78.5 to 7,361.3, the industrial index was 71.9 down at 9,049.0 and the gold index dipped 5.8 to 1,016.4. Dealers said the day's thin volumes indicated that there had been no panic-selling. If overnight trades were excluded, only R500m worth of shares were traded on the Johannesburg exchange.

## FTSE ACTUARIES WORLD INDICES

The FTSE Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NetWatt Securities Ltd. was a co-founder of the indices.

**NATIONAL AND REGIONAL MARKETS**  
Figures in parentheses show number of lines of stock

	US	Day's	Point	Index	Yan	DM	Yen	Local	Local	Gross	US	Day's	Point	Index	Yan	DM	Yen	Local	Local	Gross
	Dollar	%	Change	Index	Index	Index	Index	Index	Index	Div.	Dollar	%	Change	Index	Index	Index	Index	Index	Index	
Australia (78)	223.95	1.7	215.43	173.11	221.15	208.10	1.6	3.64	223.94	214.64	173.11	220.98	205.79	208.09	199.41	199.41				
Austria (25)	195.98	1.5	180.47	148.02	185.26	185.15	0.0	1.77	193.03	180.38	143.85	185.27	185.15	206.00	174.70	178.20				
Belgium (28)	223.15	0.4	223.15	179.36	223.15	223.15	0.0	1.77	228.84	223.15	179.36	223.15	224.44	201.11	215.52	215.51				
Brazil (50)	272.07	-5.1	250.53	201.32	257.19	544.82	-5.0	1.35	286.70	287.97	213.55	275.15	373.11	322.44	172.54	160.67				
Canada (126)	213.88	-1.1	187.04	159.33	202.27	215.31	-1.2	1.67	218.39	202.17	151.25	207.68	217.57	224.03	195.78	195.78				
Denmark (32)	387.17	0.8	355.52	288.48	380.00	364.57	-0.7	1.40	383.90	368.69	286.08	368.45	367.17	421.25	315.48	315.48				
Finland (29)	398.91	-0.5	378.68	229.95	398.10	448.20	-1.9	1.99	404.42	384.22	228.55	226.17	353.16	314.05	208.38	208.38				
France (83)	226.18	1.5	208.28	187.37	213.91	217.39	-0.0	2.42	222.75	208.13	186.00	213.70	217.39	237.87	187.20	187.20				
Germany (86)	226.68	-0.2	208.71	171.21	214.28	214.26	-1.7	1.33	227.08	212.15	189.23	217.95	217.95	238.42	173.97	173.97				
Hong Kong (68)	359.83	-2.3	311.88	111.22	355.44	502.97	-2.2	2.78	358.55	351.31	123.78	545.78	565.72	580.03	421.41	426.84				
India (27)	178.19	-0.6	162.21	130.35	168.53	610.97	-2.5	1.86	188.53	178.15	140.49	180.94	322.10	254.90	178.19	183.92				
Ireland (17)	374.48	-0.4	344.64	277.10	354.00	360.82	-1.4	2.70	376.18	351.45	280.31	361.02	368.14	378.16	284.36	287.41				
Italy (53)	99.85	1.6	81.98	73.81	94.42	132.46	0.0	1.79	98.27	81.81	73.23	94.31	132.46	105.70	73.28	76.29				
Japan (485)	132.82	-1.2	122.38	88.26	125.65	88.35	-0.5	0.80	131.33	122.70	87.86	126.04	97.88	148.58	107.57	148.04				
Malaysia (107)	398.51	-1.0	355.40	220.69	375.20	425.94	-0.9	1.63	400.57	374.85	286.80	384.83	428.31	480.85	384.40	541.80				
Mexico (27)	177.82	-1.0	163.91	131.68	169.48	151.23	-1.0	1.48	179.07	167.06	133.18	172.78	159.85	184.38	138.59	128.27				
Netherlands (19)	361.88	-3.0	300.88	289.97	370.45	388.25	-4.5	2.13	403.98	377.28	300.98	367.64	383.33	431.66	297.04	298.63				
New Zealand (14)	388.81	1.9	316.80	265.57	337.77	73.28	1.9	3.97	386.98	312.25	240.24	308.41	334.94	330.72	247.28	247.28				
Norway (41)	228.14	-0.1	207.56	158.11	208.47	332.19	-0.8	1.85	222.98	201.21	150.24	208.41	208.41	214.07	180.34	200.82				
Portugal (22)	130.34	-3.1	120.02	88.45	123.22	105.57	-2.1	1.07	134.57	128.73	100.28	120.15	127.80	127.16	101.54	101.54				
Singapore (42)	330.24	-0.6	304.10	244.38	312.15	230.75	-0.7	1.33	332.20	310.38	247.55	261.83	332.49	448.01	330.24	388.23				
South Africa (44)	345.26	-1.7	317.82	255.47	328.37	363.80	-1.5	2.40	361.11	328.05	261.64	338.98	358.42	370.12	301.49	322.82				
Spain (33)	245.99	1.3	228.51	182.02	232.54	280.80	0.0	2.31	242.58	226.79	180.88	232.97	265.93	276.05	173.01	178.26				
Sweden (49)	406.29	-0.5	385.10	286.51	408.23	583.04	-1.8	1.77	407.52	385.22	271.05	477.69	583.45	512.89	355.11	355.11				
Switzerland (33)	397.48	0.0	373.93	220.12	381.21	276.80	-1.4	1.20	397.37	377.84	221.80	285.40	390.89	329.59	221.80	247.12				
Thailand (42)	357.48	-1.2	322.85	220.31	340.05	70.46	-1.5	4.40	364.42	348.58	243.53	260.07	371.53	146.89	47.55	142.85				
United Kingdom (213)	308.22	-0.8	284.74	228.81	292.51	284.74	-2.2	3.50	311.60	291.14	232.20	290.05	291.14	325.28	241.12	241.12				
USA (538)	366.62	-2.4	337.58	271.26	348.57	565.62	-2.4	1.88	375.82	350.85	278.91	381.02	375.82	399.67	284.73	289.92				
Americas (821)	335.43	-2.4	308.87	248.20	317.08	282.56	-2.4	1.88	342.82	320.85	255.99	329.70	289.39	358.35	242.47	248.75				
Europe (713)	271.40	-0.2	249.91	200.82	256.56	261.48	-1.7	2.43	272.02	259.15	202.71	267.07	266.95	284.44	212.81	212.80				
Far East (150)	421.58	-0.3	388.21	311.96	388.53	438.77	-1.5	1.70	422.88	394.82	314.98	406.67	440.59	497.88	307.24	309.16				
Pacific Basin (891)	180.15	-1.0	165.16	111.10	141.94	112.50	-0.2	1.28	169.11	139.32	111.12	143.11	112.51	162.27	127.16	160.98				
Europe Ex UK (504)	357.20	-2.3	328.52	284.31	337.06	366.88	-2.3	1.88	365.73	341.71	272.54	351.02	355.12	378.38	255.56	263.15				
Europe Ex UK (504)	244.76	0.1	225.40	181.13	231.39	242.20	-1.4	1.83	244.59	226.52	182.27	244.75	245.59	256.73	181.01	182.70				
Pacific Ex Japan (396)	300.07	-0.9	278.32	222.04	283.68	271.36	-0.5	2.78	302.80	282.82	224.46	280.62	274.31	320.65	280.04	280.04				
World Ex US (1821)	204.84	-0.7	188.43	151.42	193.44	175.30	-1.0	1.81	204.62	191.15	152.48	186.39	178.98	212.88	178.94	185.93				
World Ex Japan (1974)	319.34	-1.8	294.05	238.29	301.87	313.48	-2.0	2.00	324.46	303.15	241.78	311.40	320.03	334.83	242.70	244.31				
The World Index (2458)	258.21	-1.1	233.93	188.58	242.20	230.17	-1.5	1.81	259.17	242.14	193.13	248.74	234.02	267.21	207.64	210.34				

lower at 7,942.40 and the broader Standard & Poor's 500 index was down 5.29 at 896.52. The Nasdaq composite index, which is weighted heavily in technology issues, also lost ground, off 10.76 at 1,551.27.

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## Sao Paulo stocks dive

Latin American stock markets moved uniformly lower in spite of the steadier opening on Wall Street.

SAO PAULO fell steeply in volatile trading. Dealers said the options settlement and Friday's shakeout on Wall Street had made for an unsettled morning session. The leading Bovespa index - off 3 per cent at one stage - was down 223 or 2 per cent at 11,112 at midsession. Losses in the midsession calculation the IPSA index was 1.21 at 131.02.

was off 1.8 per cent at R\$134.60 and Electrobras came off 2.6 per cent at R\$531. Petrobras shed 2.7 per cent to R\$292.

MEXICO CITY stayed weak in thin volume. At midsession the IPC index was off 63.25 or 1.3 per cent at 4,893.36.

SANTIAGO, closed on Friday for a national holiday, had some catching to do. At 11.12 at midsession, the IPSA index was 1.21 at 131.02.

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institutional buying pushed the market territory as the conviction grew that last week's falls had been overdone. The stronger dollar also boosted the market.

Financials led the rise ahead of results and also on takeover rumours. Insurer Aegon, which added Ft 4.70 to Ft 144.70, was said to be a target.

ABN Amro leapt 6 per cent or Ft 2.70 to Ft 147 and ING notched up a 4 per cent or Ft 3.70 rise to Ft 94.50. The groups are expected to report sound half-year results on Thursday.

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